



**Ausgrid Group
Financial report
30 June 2018**



Ausgrid Group

Financial report 30 June 2018

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Ausgrid Group
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

		Year ended 30 June 2018 \$M	Period from 20 Oct 2016 to 30 June 2017 \$M
	Notes		
Revenue	4	2,615.8	1,543.2
Distribution of energy costs	5(a)	(436.4)	(281.0)
Depreciation and amortisation expense	5(c)	(542.8)	(305.3)
Finance costs	5(d)	(481.4)	(237.7)
Employee benefits expense	5(b)	(308.2)	(274.1)
Loss on disposal of property, plant and equipment		(10.0)	(12.3)
Stamp duty on business combination		-	(970.0)
Other expenses	5(b)	(320.4)	(165.1)
Profit/(loss) before income tax		516.6	(702.3)
Income tax expense		-	-
Profit/(loss) for the year/period		516.6	(702.3)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Changes in the fair value of cash flow hedges		(89.9)	75.0
Income tax relating to these items	6	27.0	(22.5)
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Defined benefit superannuation actuarial gains	19(c)	2.0	31.9
Income tax relating to these items	6	(0.6)	(9.6)
Other comprehensive income/(loss) for the year/period, net of tax		(61.5)	74.8
Total comprehensive income/(loss) for the year/period		455.1	(627.5)
Profit/(loss) for the year/period attributable to Partners:			
Ausgrid Operator Partnership (AOP)		216.6	11.6
Ausgrid Asset Partnership (AAP)		308.8	(713.9)
Plus ES Partnership (PES)		(8.8)	-
Profit/(loss) for the year/period		516.6	(702.3)
Total comprehensive income/(loss) for the year/period is attributable to Partners:			
AOP		218.0	33.9
AAP		245.9	(661.4)
PES		(8.8)	-
Total comprehensive income/(loss) for the year/period		455.1	(627.5)

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



Ausgrid Group
Consolidated statement of financial position
As at 30 June 2018

	Notes	30 June 2018 \$M	30 June 2017 \$M
Current assets			
Cash and cash equivalents		217.3	323.4
Trade and other receivables	8	425.9	406.4
Inventories		39.4	36.9
Assets classified as held for sale	9	9.5	13.6
Total current assets		692.1	780.3
Non-current assets			
Property, plant and equipment	10	16,212.3	15,849.2
Intangible assets	11	3,980.7	3,917.7
Derivative financial asset	16	95.3	75.0
Total non-current assets		20,288.3	19,841.9
Total assets		20,980.4	20,622.2
Current liabilities			
Trade and other payables	12	301.6	272.0
Borrowings	13	2.1	1.5
Derivative financial liability	16	-	0.1
Provisions	14	351.4	352.3
Deferred government grants		1.5	1.5
Other liabilities	15	7.6	10.8
Total current liabilities		664.2	638.2
Non-current liabilities			
Borrowings	13	12,136.0	11,839.3
Deferred tax liabilities	7	5.7	32.1
Derivative financial liability	16	39.5	-
Provisions	14	120.7	156.3
Deferred government grants		42.4	43.8
Other liabilities	15	0.5	1.8
Total non-current liabilities		12,344.8	12,073.3
Total liabilities		13,009.0	12,711.5
Net assets		7,971.4	7,910.7

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



Ausgrid Group
Consolidated statement of financial position
As at 30 June 2018
(continued)

		30 June 2018 \$M	30 June 2017 \$M
	Notes		
Equity attributable to Partners of AOP			
Contributed equity	17	1,715.9	1,715.9
Reserves		23.7	22.3
Retained earnings	18	(103.0)	(60.0)
Total equity attributable to Partners of AOP		1,636.6	1,678.2
 Equity attributable to Partners of AAP			
Contributed equity	17	7,020.5	7,020.5
Reserves		(10.4)	52.5
Retained earnings	18	(776.5)	(840.5)
Total equity attributable to Partners of AAP		6,233.6	6,232.5
 Equity attributable to Partners of PES			
Contributed equity	17	110.0	-
Retained earnings	18	(8.8)	-
Total equity attributable to Partners of PES		101.2	-
 Total equity attributable to Partners of the Ausgrid Group		7,971.4	7,910.7

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



Ausgrid Group
Consolidated statement of changes in equity
For the year ended 30 June 2018

	Contributed equity \$M	Cash flow hedge reserve \$M	Defined benefit superannuation surplus \$M	Retained earnings \$M	Total \$M
Balance at 1 July 2017	8,736.4	52.5	22.3	(900.5)	7,910.7
Profit for the year	-	-	-	516.6	516.6
Other comprehensive income					
Changes in fair value of cash flow hedges, net of tax - AAP	-	(62.9)	-	-	(62.9)
Defined benefit superannuation actuarial gains, net of tax - AOP	-	-	1.4	-	1.4
Total other comprehensive income	-	(62.9)	1.4	-	(61.5)
Total comprehensive income for the year	-	(62.9)	1.4	516.6	455.1
Transactions recorded directly in equity:					
Contributed equity	110.0	-	-	-	110.0
Distributions provided or paid	-	-	-	(504.4)	(504.4)
Total transactions	110.0	-	-	(504.4)	(394.4)
Balance at 30 June 2018	8,846.4	(10.4)	23.7	(888.3)	7,971.4
Closing balance of equity attributable to					
AOP	1,715.9	-	23.7	(103.0)	1,636.6
AAP	7,020.5	(10.4)	-	(776.5)	6,233.6
PES	110.0	-	-	(8.8)	101.2
Balance at 30 June 2018	8,846.4	(10.4)	23.7	(888.3)	7,971.4

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



Ausgrid Group
Consolidated statement of changes in equity
For the year ended 30 June 2018
(continued)

	Contributed equity \$M	Cash flow hedge reserve \$M	Defined benefit superannuation surplus \$M	Retained earnings \$M	Total \$M
Balance at 20 October 2016	-	-	-	-	-
Loss for the period	-	-	-	(702.3)	(702.3)
Other comprehensive income					
Changes in fair value of cash flow hedges, net of tax - AAP	-	52.5	-	-	52.5
Defined benefit superannuation actuarial gains, net of tax - AOP	-	-	22.3	-	22.3
Total other comprehensive income	-	52.5	22.3	-	74.8
Total comprehensive income for the period	-	52.5	22.3	(702.3)	(627.5)
Transactions recorded directly in equity:					
Contributed equity	8,736.4	-	-	-	8,736.4
Distributions provided or paid	-	-	-	(198.2)	(198.2)
Total transactions	8,736.4	-	-	(198.2)	8,538.2
Balance at 30 June 2017	8,736.4	52.5	22.3	(900.5)	7,910.7
Closing balance of equity attributable to					
AOP	1,715.9	-	22.3	(60.0)	1,678.2
AAP	7,020.5	52.5	-	(840.5)	6,232.5
Balance at 30 June 2017	8,736.4	52.5	22.3	(900.5)	7,910.7

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



Ausgrid Group
Consolidated statement of cash flows
For the year ended 30 June 2018

	Year ended 30 June 2018	Period from 20 Oct 2016 to 30 June 2017
Notes	\$M	\$M
Cash flows from operating activities		
Receipts from customers	2,426.3	1,644.2
Payments to suppliers and employees	(1,046.2)	(749.8)
Stamp duty on business acquisition	-	(970.0)
Interest received	4.0	2.0
Interest paid	(428.9)	(126.4)
Net cash inflow/(outflow) from operating activities	26 <u>955.2</u>	<u>(200.0)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(648.9)	(295.3)
Payments for intangibles	(52.7)	(14.3)
Proceeds from sale of property, plant and equipment	21.9	19.4
Acquisition of business combination, net of cash acquired	2 <u>(165.3)</u>	<u>(19,534.0)</u>
Net cash outflow from investing activities	<u>(845.0)</u>	<u>(19,824.2)</u>
Cash flows from financing activities		
Equity injection from Partners	110.0	8,736.4
Proceeds from borrowings	6,070.4	11,931.3
Repayment of borrowings	(5,844.8)	-
Transactions cost paid	(45.5)	(121.9)
Finance lease payments	(2.0)	-
Distributions	(504.4)	(198.2)
Net cash (outflow)/inflow from financing activities	<u>(216.3)</u>	<u>20,347.6</u>
Net (decrease)/increase in cash and cash equivalents	(106.1)	323.4
Cash and cash equivalents at the beginning of the year/period	<u>323.4</u>	-
Cash and cash equivalents at end of year/period	<u>217.3</u>	<u>323.4</u>

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

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1 Summary of significant accounting policies

This financial report is the consolidated financial statements of Ausgrid Operator Partnership (**AOP**) (Parent Entity) and its controlled entities (hereafter collectively referred to as the **Ausgrid Group**) for the year ended 30 June 2018. AOP was established on 20 October 2016 and started trading on 1 December 2016. The comparative period is from 20 October 2016 to 30 June 2017.

The Ausgrid Group's registered office and principal place of business is 570 George Street, Sydney NSW 2000.

AOP and its partnership entities, Ausgrid Asset Partnership (**AAP**) and Plus ES Partnership (**PES**) were established on 20 October 2016 and 1 November 2017 respectively on signing of the respective Partnership Deeds. A 50/50 consortium comprising IFM Investors and AustralianSuper holds 50.4% partnership interests and the NSW Government, (through various corporations established in accordance with the Electricity Retained Interest Corporation Act 2015 (NSW)), holds 49.6% partnership interests in AOP, AAP and PES.

Pursuant to the Partnership Deeds, all the Partners agreed to ensure equivalence in that the proportion of Partnership interest held by each Partner should be identical between AOP, AAP and PES. This arrangement is akin to a stapling arrangement whereby partnership interests in separate entities must be traded or transferred together.

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

The Ausgrid Group is the controller, operator and manager of the distribution network and parts of the transmission network covering Sydney, Central Coast and Hunter regions of New South Wales (**NSW**) and provides electricity services to both residential and commercial customers in NSW. The Ausgrid Group is registered as both a Distribution Network Service Provider (**DNSP**) and a Transmission Network Service Provider (**TNSP**) in the National Electricity Market which is regulated by the Australian Energy Regulator (**AER**). Over a regulatory control period, the AER determines the annual expected revenue that the Ausgrid Group is allowed to recover from customers based on the framework set out in the National Electricity Law (**NEL**) and National Electricity Rules. The Ausgrid Group distributes electricity on behalf of energy retailers to their customers within Ausgrid's distribution area. The retailers pay the Ausgrid Group for the provision of distribution services to their customers according to the regulated distribution tariff rates approved by the AER, and for related ancillary network services to the retailers' customers. As set out in Note 3, the AER's 2015 Revenue Determination and the Ausgrid Group's Maximum Allowable Revenue (**MAR**) for the period July 2014 to June 2019 was set aside, with the AER now required to remake the determination by April 2019.

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

(a) Basis of preparation

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

(i) Compliance with IFRS

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

(ii) Historical cost convention

These financial statements are prepared on the historical cost basis, except that derivative financial instruments are stated at their fair value and assets classified as held for sale are stated at the lower of their carrying value and fair value less costs to sell.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Ausgrid Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(iv) Going concern

The financial statements have been prepared on a going concern basis. According to the Partnership Deeds, each Partner is responsible for discharging the liabilities of the Partnerships in proportion with their respective Partnership interest, and indemnifies each other Partner from the default of aforementioned liabilities. Accordingly, the Partners will provide continuing financial support so that the Ausgrid Group is able to pay its debts as and when they fall due.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the Ausgrid Group as at 30 June 2018 and the results for the year ended 30 June 2018.

Controlled entities are all entities over which the parent is deemed to have control.

Group transactions, balances and unrealised gains and losses on transactions between group entities are eliminated.

(c) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a controlled entity comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Ausgrid Group. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. They are then subsequently measured in accordance with applicable other standards, depending on their nature.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill.

(d) Reclassification

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

(e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

1 Summary of significant accounting policies (continued)

(e) Foreign currency translation (continued)

(ii) Transactions and balances (continued)

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

(f) Revenue recognition

Revenue is recognised when the amount of revenue can be reliably measured, and to the extent that it is probable that the future economic benefits will flow to the Ausgrid Group. Revenue for the sale of goods and services is recognised when significant risks and rewards of ownership of the goods has passed or the service has been provided to the customer. Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

(i) Network use of system revenue

The Ausgrid Group recognises revenue involving the rendering of electricity supply services in profit or loss on an accrual basis, based on the consumption of electricity, the number of days of network access provided and a capacity charge.

Network use of system (**NUOS**) revenue is comprised of distribution use of system (**DUOS**) revenue, transmission use of system (**TUOS**) revenue and revenue to recover the Ausgrid Group's annual contribution to the NSW Climate Change Fund (**CCF**). DUOS revenue relates to customer use of the Ausgrid Group's distribution network. TUOS revenue relates to customer use of the Ausgrid's Group's transmission network, and also includes revenue to recover transmission costs paid to TNSP and embedded generators.

(ii) Unread meters

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

(iii) Transmission revenue

Transmission revenue represents revenue received from TransGrid from their use of Ausgrid's transmission assets.

(iv) Excess/shortfall in regulatory revenue

(a) DUOS

With effect from 1 July 2014, the AER started determining the Ausgrid Group's allowed network revenues under a revenue cap framework. Under this framework, where distribution revenues exceed or fall below the MAR as determined by the AER, no liability or asset is recognised. Instead, adjustments will be made to the allowable revenues in the future years under the regulatory framework.

(b) TUOS

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

1 Summary of significant accounting policies (continued)

(f) Revenue recognition (continued)

(iv) *Excess/shortfall in regulatory revenue (continued)*

(c) CCF revenue

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

(v) *Capital contributions*

This represents cash and non-cash capital contributed by customers and developers to the Ausgrid distribution network.

Capital contributions received in cash are initially recorded as liabilities. Once the network asset is completed or modified as outlined in the terms of the contract, the capital contribution is transferred to revenue, and the asset is recognised at fair value.

The fair value of non-cash contributions are recognised as revenue, with the associated asset also recognised, at the date at which control is gained and the assets are ready for use.

(vi) *Contestable metering service*

Contestable metering service revenue represents the annuity income received from the retailers for providing contestable metering services.

(vii) *Street lighting revenue*

Street lighting services revenue relates to the ongoing maintenance and replacement of street lighting assets. It is recognised on an accrual basis when the services are provided.

(viii) *Infrastructure service*

Infrastructure services revenue represents revenue for design and construction of electrical and fibre infrastructure, chemical and oil testing, instrument calibration and high power testing of electrical equipment.

(ix) *Government grants*

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

Grants that compensate the Ausgrid Group for expenses incurred are recognised in profit or loss in the same period in which the expenses are incurred.

(x) *Other revenue*

Other revenue consists of revenue from fees, miscellaneous network charges and other miscellaneous income.

(xi) *Interest income*

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

(g) Income tax

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

1 Summary of significant accounting policies (continued)

(g) Income tax (continued)

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

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

(h) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Finance leases - as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Ausgrid Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

The lease for the Ausgrid electricity distribution assets and properties is classified as a finance lease and accordingly the assets and liabilities have been recognised on the Ausgrid Group's statement of financial position. No finance charges are recognised in profit or loss, as the lease premium was paid to the lessor at inception of the lease.

(ii) Operating leases - as a lessee

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense and spread over the lease term.

(iii) Operating leases - as a lessor

Where the Ausgrid Group is the lessor, leases in which the Ausgrid Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases.

The Ausgrid Group leases out its properties, including premises, land, poles and communications towers, under operating lease agreements at market rentals, predominantly on a fixed term basis.

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss. The costs of repairs and maintenance incurred on these properties for the year are recognised as an expense in profit or loss.

(i) Impairment of assets

Goodwill and indefinite life intangible assets are tested for impairment annually or whenever there is an indicator of impairment. Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell (**FVLCTS**) and value in use (**VIU**). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units (**CGU**)).

(j) Cash and cash equivalents

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

1 Summary of significant accounting policies (continued)

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

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

(l) Inventories

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

(m) Property, plant and equipment

(i) Acquisition of assets

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

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

(ii) Historical cost method

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

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

The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(iii) Impairment assessment

Each year, the specialised plant and infrastructure assets, land, and buildings are assessed for impairment if an indication of impairment exists. The Ausgrid Group makes an estimate of the recoverable amount to confirm that the carrying amount of the asset does not exceed its recoverable amount.

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

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

1 Summary of significant accounting policies (continued)

(m) Property, plant and equipment (continued)

(iv) *Retirements or disposals*

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

(v) *Capitalisation of costs*

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

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

(vi) *Depreciation*

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

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Categories	Useful life (years)
Buildings	40-60
Network assets:	
IT	4-10
Meters	10
Transmission and distribution equipment	35-50
Mains	45-60
Tunnels	70
Plant and equipment:	
Meters	10
Plant	7
Fleet	10-15
Furniture	10
Office machines	7
IT hardware	1-4

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

1 Summary of significant accounting policies (continued)

(n) Intangible assets

(i) Goodwill

Goodwill is initially measured as described in Note 1(c). After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

(ii) Computer software

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

(iii) Network assets

Network assets include easements and the network distributor's licence. Easements, which are an interest in land allowing access to network assets, are not amortised as they are granted for an unlimited time. The network Distributor's licence is amortised on a straight-line basis over the 99 year lease period.

(iv) Customer contracts

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

(o) Assets classified as held for sale

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

(p) Derivatives and hedging activities

(i) Initial recognition and subsequent measurement

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

The fair value of interest rate swaps (**IRS**), cross currency swaps (**CCS**) and cross currency interest rate swaps (**CCIRS**) is the estimated amount that the Ausgrid Group would receive or pay to terminate the swap at the reporting date, taking into account current interest and foreign exchange rates and the current creditworthiness of the swap counterparties.

Derivative financial instruments are classified into current and non-current portions when the Ausgrid Group expects to hold a derivative as an economic hedge for a period beyond 12 months after the reporting date.

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

1 Summary of significant accounting policies (continued)

(p) Derivatives and hedging activities (continued)

(i) Initial recognition and subsequent measurement (continued)

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

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

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

(a) Fair value hedges

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

(b) Cash flow hedges

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

(q) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. They are presented as current liabilities unless payment is not due within 12 months from the reporting date. The amounts are unsecured and are usually paid within 30 days of recognition.

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Transaction costs are amortised using the effective interest method over the life of the loan. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

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

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

(s) Provisions

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

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

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

1 Summary of significant accounting policies (continued)

(t) Employee benefits

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

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

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date based on an actuarial assessment. The accrued portion of future benefits has been determined using the projected unit credit method. Consideration is given to expected future wage and salary levels, and a range of demographic assumptions including retirement, withdrawal, death and disability rates.

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

(u) Superannuation

(i) Defined contribution plan

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

(ii) Defined benefit plan

The Ausgrid Group participates in the Energy Industries Superannuation Scheme established by a Trust Deed made under an Act of the NSW Parliament, of which some divisions provide defined benefits. The Ausgrid Group account for its proportionate share of the defined benefit obligation, plan assets and cost, associated with the plan in the same way as for any other defined benefit plan.

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

The discount rate is the market yield on national corporate bonds as at 30 June 2018 that have maturity dates approximately to the terms of the Ausgrid Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

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

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

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

1 Summary of significant accounting policies (continued)

(v) Other liabilities

(i) *Deferred revenue*

Deferred revenue is recognised for customer prepayments for external, recoverable and contestable works carried out by the Ausgrid Group as at reporting date. The revenue is deferred pending completion of the works and services.

(ii) *Deposits*

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

(w) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST.

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

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

(x) Distributions

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

(y) Segment reporting

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

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

- SCS comprise core distribution and transmission network services that the AER determines are for the benefit of all end customers, the costs of which are recovered from all end customers. SCS is subject to a revenue cap mechanism which limits the amount of revenue that can be recovered from providing the applicable services in a given regulatory control period;
- ACS are services that the AER determines are either dedicated to, or requested by, a small number of end customers, the costs of which are directly recovered from those end customers. ACS is subject to a price cap mechanism which limits the price that can be charged for the applicable service. ACS include certain types of metering services and ancillary network services, such as facilitating network connection, and street lighting; and
- Unregulated services comprise services that the AER believes are provided on a sufficiently competitive or contestable basis such that economic regulation is not necessary. These services include contestable metering services, network premises connections, private customer lighting services, infrastructure services, emerging energy solutions, and network extensions and/or repairs.

1 Summary of significant accounting policies (continued)

(z) Rounding of amounts

The Ausgrid Group has applied ASIC Legislative Instrument 2016/191 (Rounding in Financial/Directors' Reports), the amounts shown in this financial report have been rounded to the nearest \$100,000, unless otherwise indicated.

(aa) New accounting standards and interpretations

(i) *New standards and interpretations adopted*

The Ausgrid Group has adopted *AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107 Statement of Cash Flows (AASB 107)*. This amended standard became applicable to the Ausgrid Group on 1 July 2017.

The amendments to *AASB 107* require disclosure of changes in liabilities arising from financing activities, see Note 13 - Reconciliation of liabilities arising from financing activities.

The adoption of this amendment to the standard has no material impact on the financial results of the Ausgrid Group.

(ii) *New standards and interpretations not yet adopted*

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Ausgrid Group for the year ended 30 June 2018. The impact of these new standards or amendments to the standards and interpretations (to the extent applicable to the Ausgrid Group) is as follows:

(a) AASB 15 Revenue from Contracts with Customers (effective from 1 July 2018)

AASB 15 Revenue from Contracts with Customers (AASB 15) will replace *AASB 118 Revenue* which covers contracts for goods and services and *AASB 111 Construction Contracts* which covers construction contracts. Under *AASB 15*, revenue is recognised when control of a good or service transfers to a customer. The concept of control replaces the existing notion of risks and rewards under the current standard. The Ausgrid Group will adopt the new revenue standard for financial years commencing on or after 1 July 2018.

There will be no material change to the revenue recognition policy under the new standard. Compared to the current standard, the presentation and disclosure requirements under *AASB 15* are more detailed. Application of the standard is expected to result in additional disclosure of information relating to revenue.

The accounting treatment of customer contributions (apart from street lighting contributions) to the Ausgrid Group's distribution network will continue to be recognised when the connection is completed for all customer contributions.

For street lighting contributions, the Ausgrid Group assumes an ongoing maintenance obligation to the customer (mostly councils) who also contributed the assets. Therefore the fair value of contribution from these specific customers will be treated as deferred revenue and recognised over the life of the asset contributed. The Ausgrid Group recognised \$13.5 million of upfront street lighting contributions in the year ended 30 June 2018.

The Ausgrid Group intends to adopt the modified retrospective transition approach and intends to select the practical expedient for contracts completed before 1 July 2018. Under this approach, no restatement adjustments have been recognised as at 1 July 2018.

(b) AASB 16 Leases (effective from 1 July 2019)

AASB 16 Leases (AASB 16) is applicable to the Ausgrid Group from 1 July 2019. The new standard requires nearly all leases to be recognised on the balance sheet.

There will be no material impact to the balance sheet or profit or loss.

As at the reporting date, the Ausgrid Group has non-cancellable operating lease commitments of \$82.1 million (30 June 2017: \$91.6 million). Refer to Note 23 for further detail.



2 Business combination

(a) Summary of acquisition

On 1 November 2017, PES was established with initial partnership capital of \$20 (1,000 interests x \$0.02 per interest).

On 8 November 2017, Plus ES Management 1 Pty Limited (**PES 1**) and Plus ES Management 2 Pty Limited (**PES 2**) were incorporated. PES subscribed \$10 for shares in PES 1 and PES 2 respectively (1,000 shares for \$0.01 per share).

On 30 November 2017, PES acquired 100% of the shares in Active Stream Pty Limited (**Active Stream**) for \$60.0 million (GST exclusive) and acquired the associated metering assets for \$105.3 million (GST exclusive).

These consolidated financial statements have been prepared on the basis the acquisition is considered a business combination under *AASB 3 Business Combinations*. PES has been identified as the acquirer.

The net assets recognised in these 30 June 2018 financial statements were based on a provisional assessment of fair value. The acquisition accounting will be finalised within 12 months of the purchase.

The fair values of the identifiable assets and liabilities of Active Stream as at the date of acquisition were:

	Fair value recognised on acquisition \$M
Assets	
Property, plant and equipment	105.3
Liabilities	
Trade and other payables	(4.1)
Provisions	(0.4)
Total identifiable net assets at fair value	<u>100.8</u>
 Goodwill arising on acquisition	 64.5
Total net assets acquired	<u>165.3</u>
 Purchase consideration paid	 166.0
Less: Purchase price adjustment	(0.7)
Total consideration	<u>165.3</u>

(i) Goodwill

The goodwill is attributable to the workforce, future growth in the contestable metering business, and systems and process within the business. Goodwill is not tax deductible as the assets were acquired and liabilities were assumed by the Partnership, whose Partners pay tax on their share of Partnership income.

(ii) Acquisition-related costs

The Ausgrid Group incurred acquisition related costs of \$2.3 million. These costs have been included in 'Other expenses' in profit or loss.

2 Business combination (continued)

(b) Acquisitions in the comparative period ended 30 June 2017 were as follows:

On 1 December 2016, AOP and AAP entered into the Sale and Purchase Agreement (**SPA**) with the State of NSW regarding the business carried on by Ausgrid, a State Owned Corporation at the time. The SPA was executed on 1 December 2016.

Upon execution of the SPA, AAP leased the Ausgrid distribution network assets from the State of NSW while AOP acquired 100% of the transaction package of Ausgrid at a consideration of \$19,535.6 million (represented by the SPA purchase price of \$19,552.4 million less a \$16.8 million SPA completion adjustment, \$19,534.0 million net of cash acquired).

On 1 December 2016, AOP also entered into a sub-lease agreement with AAP to operate the NSW electricity distribution network and collects regulated revenue. AOP pays a monthly rent to AAP under the sub-lease agreement.

The transaction package acquired by AOP contains sale assets, assumed liabilities, transferring employees as well as all rights, licenses, system to operate the NSW distribution network. The set of assets, liabilities, human resources and processes acquired by AOP represents an integrated set of activities capable of being operated as a business therefore the acquisition is considered to be a business combination under *AASB 3 Business Combinations*. AOP was the acquirer and Ausgrid was the acquiree.

Accounting for the business combination was completed as at 31 December 2017. As part of finalising the acquisition accounting, it has been identified that at the acquisition date, metering contracts with a fair value of \$5 million were not identified and separately valued. This \$5 million was included in goodwill as at 30 June 2017. As a result, an increase in customer contracts of \$5 million has been recognised, with a corresponding decrease in goodwill, as detailed in Note 11. The customer contracts are amortised over a five year useful life.

3 Use of estimates and judgements

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

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

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

Note 1(f)(ii) and 8 - Unread meters
Note 1(m) and 10 - Property, plant and equipment
Note 1(n) and 11 - Intangible assets
Note 1(s) and 14 - Provisions
Note 19 - Superannuation - Defined benefit plan
Note 27(f) - Recognised fair value measurements

On 24 May 2017, the Full Federal Court handed down its decisions regarding the NSW/ACT revenue determinations for the 2014 - 19 regulatory period. The Full Federal Court supported the Australian Competition Tribunal's 26 February 2016 decision to set aside the AER's April 2015 Revenue Determination and therefore the Ausgrid Group's Allowable Revenues for the period 1 July 2014 to 30 June 2019. The AER is now required to remake its decision regarding the Ausgrid Group's 2014 - 19 revenue determination.

In the absence of an applicable 2014 - 19 revenue determination, the Ausgrid Group has entered into enforceable undertakings under section 59A of the NEL to set prices for the 2017, 2018 and 2019 financial years. Finalisation of the 2014 - 19 revenue determination may result in a change in the future cash flows and therefore impact on the valuation of network assets, as the methodology adopted to determine fair value is based on a discounted cash flow model. In the absence of an applicable revenue determination, the calculation of any cumulative under or over recovery for the current regulatory period cannot be undertaken and instead will be considered by the AER as part of a remade 2014 - 19 revenue determination.



4 Revenue

	Year ended 30 June 2018 \$M	Period from 20 Oct 2016 to 30 June 2017 \$M
Revenue components		
DUOS	1,503.0	901.2
TUOS		
Pass-through	321.3	216.3
Non pass-through	183.3	89.1
CCF: Pass-through	152.3	90.4
NUOS	2,159.9	1,297.0
Transmission	49.2	31.9
SCS capital contributions	112.1	58.2
Total SCS revenue	2,321.2	1,387.1
Street lighting	42.2	24.4
Ancillary Network Services	46.1	24.4
Metering	63.4	37.3
ACS capital contributions	16.5	9.8
Total ACS revenue	168.2	95.9
External, Recoverable and Contestable works	115.5	49.0
Other	1.7	1.3
Total unregulated revenue	117.2	50.3
Solar bonus rebate scheme recovery	-	6.3
Other	9.2	3.6
Total other revenue	9.2	9.9
Total revenue	2,615.8	1,543.2

Revenue of \$1,531.3 million (2017: \$793.7 million) is derived from Retailers that individually make up more than 10% of the Ausgrid Group's total revenue and relate to SCS revenue.



5 Expenses

(a) Distribution of energy costs

	Year ended 30 June 2018 \$M	Period from 20 Oct 2016 to 30 June 2017 \$M
Regulated pass-through costs		
TNSP pass-through costs	297.2	193.9
CCF pass-through costs	138.4	80.3
Total regulated pass-through costs	435.6	274.2
Other energy costs	0.8	6.8
Total distribution of energy costs	436.4	281.0

(b) Operating expenses

	Year ended 30 June 2018 \$M	Period from 20 Oct 2016 to 30 June 2017 \$M
Employee benefits expense	217.4	117.2
Superannuation expense (defined benefit plan)	8.2	8.5
Superannuation expense (defined contribution plan)	47.3	26.1
Reform costs	35.3	122.3
Employee benefits expenses	308.2	274.1
Contracted services	203.3	101.6
IT expenses	36.5	19.6
Materials	25.8	12.4
Land and other taxes	22.9	13.6
Acquisition costs	2.3	-
Operating lease rental	16.4	9.5
Bad debts	(0.2)	-
Other	13.4	8.4
Other expenses	320.4	165.1
Total operating expenses¹	628.6	439.2

- (1) Total operating expenses are made up of SCS operating expenses of \$465.3 million (2017: \$343.4 million), ACS operating expenses of \$75.8 million (2017: \$56.4 million) and Unregulated operating expenses of \$87.5 million (2017: \$39.4 million).



5 Expenses (continued)

(c) Depreciation and amortisation expense

	Year ended 30 June 2018 \$M	Period from 20 Oct 2016 to 30 June 2017 \$M
Depreciation of property, plant and equipment	486.1	269.7
Amortisation of intangible assets	64.0	39.7
Depreciation reclassification	(7.3)	(4.1)
Total depreciation and amortisation expense	542.8	305.3

(d) Finance costs

	Year ended 30 June 2018 \$M	Period from 20 Oct 2016 to 30 June 2017 \$M
Interest expense	432.5	224.5
Amortisation of loan transaction costs	50.7	14.7
Unwinding of discount	4.4	0.9
Finance lease interest	2.1	0.8
Capitalised interest	(4.4)	(3.2)
Hedge ineffectiveness	(3.9)	-
Total finance costs	481.4	237.7

6 Taxation

	Year ended 30 June 2018 \$M	Period from 20 Oct 2016 to 30 June 2017 \$M
Income tax recognised in other comprehensive income		
<i>Items not to be reclassified subsequently to profit or loss:</i>		
Defined benefit superannuation actuarial gains	(0.6)	(9.6)
<i>Items to be reclassified subsequently to profit or loss:</i>		
Changes in the fair value of cash flow hedges	27.0	(22.5)
Total income tax recognised in other comprehensive income	26.4	(32.1)

7 Deferred tax liabilities

	Defined benefit superannuation plan \$M	Cash flow hedge reserve \$M	Total \$M
Balance at 20 October 2016	-	-	-
Recognised in other comprehensive income	9.6	22.5	32.1
Balance at 30 June 2017	9.6	22.5	32.1
Recognised in other comprehensive income	0.6	(27.0)	(26.4)
Balance at 30 June 2018	10.2	(4.5)	5.7

8 Trade and other receivables

	30 June 2018 \$M	30 June 2017 \$M
Current		
Trade receivables	108.0	91.1
Less: provision for impairment of trade receivables	(1.3)	(1.8)
Unread meters	296.9	306.8
Net trade receivables	403.6	396.1
Prepayments	22.3	9.8
Other receivables	-	0.5
Total current trade and other receivables	425.9	406.4

9 Assets classified as held for sale

	30 June 2018 \$M	30 June 2017 \$M
Land and buildings	9.5	13.6
Total assets classified as held for sale	9.5	13.6



10 Property, plant and equipment

	Land and buildings \$M	Network assets \$M	Plant and equipment \$M	Total \$M
At 30 June 2018				
Gross carrying amount	645.3	15,938.6	384.2	16,968.1
Accumulated depreciation	(17.5)	(676.7)	(61.6)	(755.8)
Net carrying amount	627.8	15,261.9	322.6	16,212.3

Year ended 30 June 2018

Net carrying amount at 1 July 2017	619.4	15,036.3	193.5	15,849.2
Business combination	-	-	105.3	105.3
Additions	28.8	672.0	80.8	781.6
Disposals	-	(14.1)	(4.3)	(18.4)
Assets classified as held for sale	(9.5)	-	-	(9.5)
Depreciation expense	(10.9)	(433.1)	(42.1)	(486.1)
Reclassifications	-	0.8	(10.6)	(9.8)
Net carrying amount	627.8	15,261.9	322.6	16,212.3

	Land and buildings \$M	Network assets \$M	Plant and equipment \$M	Total \$M
At 30 June 2017				
Gross carrying amount	626.0	15,279.9	213.0	16,118.9
Accumulated depreciation	(6.6)	(243.6)	(19.5)	(269.7)
Net carrying amount	619.4	15,036.3	193.5	15,849.2

Period ended 30 June 2017

Net carrying amount at 20 October 2016	-	-	-	-
Business combination	618.2	14,960.5	198.3	15,777.0
Additions	7.8	325.0	15.7	348.5
Disposals	-	(5.6)	(1.0)	(6.6)
Depreciation expense	(6.6)	(243.6)	(19.5)	(269.7)
Net carrying amount	619.4	15,036.3	193.5	15,849.2

Assets under construction

At 30 June 2018, the assets under construction totalled:

Land and buildings	\$37.1 million (30 June 2017: \$9.3 million)
Network assets	\$406.8 million (30 June 2017: \$386.2 million)
Plant and equipment	\$65.5 million (30 June 2017: \$8.6 million)



10 Property, plant and equipment (continued)

Capital expenditure

	Year ended 30 June 2018 \$M	Period from 20 Oct 2016 to 30 June 2017 \$M
SCS capital expenditure		
Augmentation	17.9	13.7
Replacement	472.1	231.3
Connection	13.4	7.0
Reliability	1.7	0.8
Non-network and other	119.8	24.3
Total SCS capital expenditure	624.9	277.1
ACS capital expenditure		
Capital expenditure	47.5	22.9
Total ACS capital expenditure	47.5	22.9
Unregulated capital expenditure		
Capital expenditure	32.5	9.6
Acquisition of Active Stream meters	105.3	-
Total Unregulated capital expenditure	137.8	9.6
Total capital expenditure¹	810.2	309.6

- (1) Total capital expenditure amount is different to the total additions of property, plant and equipment and intangible assets (refer to Note 11), because it does not include capitalised capital contributions of \$123.7 million, capitalised interest of \$4.4 million and the asset related provision reassessment of \$1.3 million. Additionally, this amount includes \$105.3 million metering assets acquired, refer to Note 2(a).

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

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

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

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

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

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

Unregulated capital expenditure relates to investments related to the Ausgrid Group's unregulated business including contestable meters and electrical and telecommunication infrastructure.

11 Intangible assets

	Network assets \$M	Customer contracts \$M	Computer software \$M	Goodwill \$M	Total \$M
At 30 June 2018					
At cost	1,687.6	5.0	257.4	2,134.4	4,084.4
Accumulated amortisation	(25.3)	(1.6)	(76.8)	-	(103.7)
Net carrying amount	1,662.3	3.4	180.6	2,134.4	3,980.7
Year ended 30 June 2018					
Net carrying amount at 1 July 2017	1,678.3	-	164.5	2,074.9	3,917.7
Business combination	-	-	-	64.5	64.5
Additions	-	-	52.7	-	52.7
Finalisation of acquisition accounting	-	5.0	-	(5.0)	-
Reclassifications	-	-	9.8	-	9.8
Amortisation expense	(16.0)	(1.6)	(46.4)	-	(64.0)
Net carrying amount	1,662.3	3.4	180.6	2,134.4	3,980.7
At 30 June 2017					
At cost	1,687.6	-	194.9	2,074.9	3,957.4
Accumulated amortisation	(9.3)	-	(30.4)	-	(39.7)
Net carrying amount	1,678.3	-	164.5	2,074.9	3,917.7
Period ended 30 June 2017					
Net carrying amount 20 October 2016	-	-	-	-	-
Business combination	1,687.4	-	180.8	2,074.9	3,943.1
Additions	0.2	-	14.1	-	14.3
Amortisation expense	(9.3)	-	(30.4)	-	(39.7)
Net carrying amount	1,678.3	-	164.5	2,074.9	3,917.7

Assets under construction

At 30 June 2018, the assets under construction for computer software was \$62.2 million (30 June 2017: \$23.6 million).

(a) Impairment test of goodwill and indefinite life intangibles

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. The Ausgrid Group has two CGUs, namely the network service provider (**NSP**) (comprising AAP and AOP) and PES.

The recoverable amount of each CGU has been determined based on the FVLCTS.

In applying the FVLCTS approach, the recoverable amount of CGU is assessed using discounted cash flows techniques (Level 3), with key assumptions from market participants' perspective. The cash flow forecast are principally based upon management approved business plans up to 30 June 2024 and extrapolated using growth rates. These cash flows are then discounted using a relevant long term pre-tax discount rate. This is considered to be Level 3 in the fair value hierarchy, based on non-market observation inputs.

11 Intangible assets (continued)

(a) Impairment test of goodwill and indefinite life intangibles (continued)

For the purpose of impairment testing, goodwill has been allocated to these CGUs as follows:

NSP	\$2,074.9 million (30 June 2017: \$2,074.9 million)
PES	\$64.5 million (30 June 2017: not applicable)

(i) Key assumptions used in FVLCTS calculation

Key assumptions on which management has based its cash flow projections including:

- Growth rates used to extrapolate cash flows are considered a reasonable estimate of the long-term average growth rate for the industry.
- Discount rate is determined based on post-tax weighted average cost of capital using market based inputs.

The key estimates and assumptions used to determine the FVLCTS are based on management's current expectations after considering external information, and are considered to be reasonably achievable. Any foreseeable change to the above key assumptions would not cause the carrying value of a CGU to exceed its recoverable amount.

(a) NSP CGU

Terminal growth rate is 2.5% (30 June 2017: 2.5%) and pre-tax discount rate is 7.5% (30 June 2017: 7.5%) per annum.

(b) PES CGU

Terminal growth rate is 3.0% and pre-tax discount rate is 8.9% per annum.

(ii) Sensitivity to changes in assumptions

With regard to the assessment of FVLCTS, management believes there is no foreseeable changes to the assumptions above that would cause the carrying value of the CGUs to materially exceed its recoverable amount.

12 Trade and other payables

	30 June 2018 \$M	30 June 2017 \$M
Current		
Trade payables	86.3	80.5
Interest payable	99.3	97.9
Accruals	75.0	48.7
Other payables	41.0	44.9
Total current trade and other payables	301.6	272.0

13 Borrowings

	30 June 2018 \$M	30 June 2017 \$M
Current		
Finance lease liabilities	2.1	1.5
Total current borrowings	2.1	1.5



13 Borrowings (continued)

	30 June 2018 \$M	30 June 2017 \$M
Non-current		
Finance lease liabilities	15.3	16.2
A\$ denominated interest bearing loans	6,237.5	11,931.3
A\$ denominated interest bearing notes	1,527.1	-
US\$ denominated interest bearing notes	3,424.8	-
EUR denominated interest bearing notes	1,034.3	-
Less: Transaction costs	(103.0)	(108.2)
Total non-current borrowings	12,136.0	11,839.3

US Private Placement (USPP)

On 7 September 2017, Ausgrid Finance Pty Limited (**AFPL**) issued A\$2,365.7 million equivalent of notes in its inaugural USPP offering. This comprised US\$1,630.0 million of ten, 12 and 15 year US\$ denominated fixed-rate notes, A\$220.0 million of ten, 12 and 15 year A\$ denominated fixed-rate notes and A\$100.0 million of 15 year A\$ denominated floating rate notes. The proceeds from the transaction were used to fully repay Facility A1 of the Syndicated Facility Agreement (**SFA**) and partially repay Facility A2 of the SFA.

Australian Medium Term Note (AMTN)

On 24 October 2017, AFPL priced its inaugural offering in the AMTN bond market. The issuance consisted of A\$750.0 million of fixed-rate notes and A\$450.0 million of floating-rate notes, each with a tenure of seven years. Proceeds from the transaction were received on 30 October 2017 and applied the next day to fully repay the remaining A\$1,134.3 million of Facility A2 of the SFA.

Euro Medium Term Note (EMTN)

On 20 April 2018, AFPL priced its inaugural offering in the EMTN bond market. The issuance consisted of EUR650.0 million, equivalent to A\$1,036.7 million, of fixed-rate notes with tenure of 7.25 years. Proceeds from the transaction were received on 30 April 2018 and were used to partially repay Facility B2 of the SFA.

US144A

On 24 April 2018, AFPL priced its inaugural offering in the US144A/Reg S market. Total issuance was a US\$1,000.0 million senior secured transaction, equivalent to A\$1,317.0 million, comprising US\$500.0 million with a tenure of five years, and US\$500.0 million with a tenure of 10.25 years, US\$ denominated fixed-rate notes. Proceeds from the transaction were received on 1 May 2018 and were used to partially repay Facility B2 of the SFA.



13 Borrowings (continued)

	Loan balance \$M	Fair value hedge adjustment \$M	Transaction costs \$M	Carrying value \$M
30 June 2018				
Current				
Finance lease liabilities	2.1	-	-	2.1
Non-current				
Fixed rate notes				
10 year US\$770M USPP fixed rate notes	1,041.9	(60.4)	(5.9)	975.6
12 year US\$430M USPP fixed rate notes	581.9	(36.7)	(4.0)	541.2
15 year US\$430M USPP fixed rate notes	581.9	(40.0)	(5.1)	536.8
10 year A\$ USPP fixed rate notes	29.0	-	(0.2)	28.8
12 year A\$ USPP fixed rate notes	103.0	-	(0.8)	102.2
15 year A\$ USPP fixed rate notes	88.0	-	(0.8)	87.2
7 year A\$ AMTN fixed rate notes	750.0	7.1	(6.7)	750.4
7.25 year EUR650M fixed rate notes	1,023.5	10.8	(5.7)	1,028.6
5 year US\$500M 144A fixed rate notes	676.6	0.4	(4.9)	672.1
10.25 year US\$500M 144A fixed rate notes	676.6	2.6	(8.6)	670.6
	5,552.4	(116.2)	(42.7)	5,393.5
Variable rate instruments				
15 year A\$ USPP floating rate notes	100.0	-	(1.0)	99.0
7 year A\$ AMTN floating rate notes	450.0	-	(1.2)	448.8
Facilities B1, B2, B3 and C	6,237.5	-	(58.1)	6,179.4
	6,787.5	-	(60.3)	6,727.2
Finance lease liabilities	15.3	-	-	15.3
Total non-current borrowings	12,355.2	(116.2)	(103.0)	12,136.0
Total borrowings	12,357.3	(116.2)	(103.0)	12,138.1
30 June 2017				
Current				
Finance lease liabilities	1.5	-	-	1.5
Non-current				
Variable rate instruments				
Facilities A1, A2, B1, B2 and B3	11,931.3	-	(108.2)	11,823.1
	11,931.3	-	(108.2)	11,823.1
Finance lease liabilities	16.2	-	-	16.2
Total non-current borrowings	11,947.5	-	(108.2)	11,839.3
Total borrowings	11,949.0	-	(108.2)	11,840.8



13 Borrowings (continued)

	Maturity	Facility limit \$M	Drawn \$M	Undrawn \$M	Rate in currency of issue ¹
30 June 2018					
10 year US\$770M USPP fixed rate	01 Oct 27	981.5	981.5	-	3.50%
12 year US\$430M USPP fixed rate	01 Oct 29	545.2	545.2	-	3.60%
15 year US\$430M USPP fixed rate	01 Oct 32	541.9	541.9	-	3.75%
10 year A\$ USPP fixed rate	01 Oct 27	29.0	29.0	-	4.45%
12 year A\$ USPP fixed rate	01 Oct 29	103.0	103.0	-	4.62%
15 year A\$ USPP fixed rate	01 Oct 32	88.0	88.0	-	4.86%
15 year A\$ USPP floating rate	01 Oct 32	100.0	100.0	-	BBSW+1.80%
Total USPP notes		2,388.6	2,388.6	-	
7 year A\$ AMTN fixed rate	30 Oct 24	757.1	757.1	-	3.75%
7 year A\$ AMTN floating rate	30 Oct 24	450.0	450.0	-	BBSW+1.22%
Total AMTN		1,207.1	1,207.1	-	
5 year US\$500M 144A fixed rate	01 May 23	677.0	677.0	-	3.85%
10.25 year US\$500M 144A fixed rate	01 Aug 28	679.2	679.2	-	4.35%
Total US144A notes		1,356.2	1,356.2	-	
7.25 year EUR650M fixed rate	30 Jul 25	1,034.3	1,034.3	-	1.25%
Total EMTN		1,034.3	1,034.3	-	
Term Facility B1 ²	01 Jun 20	917.2	917.2	-	BBSY+1.05%
Term Facility B2 ²	01 Dec 21	3,669.3	3,669.3	-	BBSY+1.35%
Term Facility B3 ²	01 Dec 23	1,500.0	1,500.0	-	BBSY+1.60%
Total term loans		6,086.5	6,086.5	-	
Capex Facility C ²	01 Jun 20	721.4	151.0	570.4	BBSY+1.05%
Working Capital Facility D ^{2,3}	01 Jun 20	125.0	-	125.0	BBSY+1.05%
Total liquidity		846.4	151.0	695.4	
Total⁴		12,919.1	12,223.7	695.4	

- (1) The rates listed are those that apply to each instrument in its respective currency of issuance. The Bank Bill Swap Rate (**BBSW/BBSY**) is a floating short term benchmark interest rate. BBSY is equivalent to BBSW plus a spread of 0.05%.
- (2) A\$ bank facility provided under the SFA.
- (3) Utilisations to date are in the form of bank guarantees and therefore not recognised as a liability. Refer to Note 24.
- (4) 3.54% is the Australian dollar weighted average cost of drawn debt for the year ended 30 June 2018, including interest on drawn debt and net payments under its CCIRS and IRS portfolios.



13 Borrowings (continued)

	Maturity	Facility limit \$M	Drawn \$M	Undrawn \$M	Rate in currency of issue
30 June 2017					
Facility A1 (bridge)	01 Dec 18	2,000.0	2,000.0	-	BBSY+2.66%
Facility A2 (bridge)	01 Dec 18	1,500.0	1,500.0	-	BBSY+2.66%
Total bridge		3,500.0	3,500.0	-	
Term Facility B1	01 Jun 20	917.2	917.2	-	BBSY+2.81%
Term Facility B2	01 Dec 21	6,014.1	6,014.1	-	BBSY+2.11%
Term Facility B3	01 Dec 23	1,500.0	1,500.0	-	BBSY+3.36%
Total term loans		8,431.3	8,431.3	-	
Capex Facility C	01 Jun 20	721.4	-	721.4	
Working Capital Facility D	01 Jun 20	125.0	-	125.0	
Total liquidity		846.4	-	846.4	
Total		12,777.7	11,931.3	846.4	

Reconciliation of liabilities arising from financing activities

	1 July 2017	Cash flows	Non-cash changes			30 June 2018
			Fair value hedge adjustment	Foreign exchange movements	Amortisation	
	\$M	\$M	\$M	\$M	\$M	\$M
A\$ denominated interest bearing loans	11,931.3	(5,693.8)	-	-	-	6,237.5
A\$ denominated interest bearing notes	-	1,520.0	7.1	-	-	1,527.1
US\$ denominated interest bearing notes	-	3,362.7	(134.1)	196.2	-	3,424.8
EUR denominated interest bearing notes	-	1,036.7	10.8	(13.2)	-	1,034.3
Loan transaction costs	(108.2)	(45.5)	-	-	50.7	(103.0)
Finance lease liabilities	17.7	(2.0)	-	-	1.7	17.4
Total liabilities from financing activities	11,840.8	178.1	(116.2)	183.0	52.4	12,138.1

14 Provisions

	Employee benefits \$M	Restructuring \$M	Insurance \$M	Other \$M	Total \$M
Balance at 1 July 2017	281.6	133.7	20.5	72.8	508.6
Additional provision	165.9	8.6	2.8	7.5	184.8
Unwinding of discount	-	2.3	0.4	1.7	4.4
Amounts used	(158.7)	(51.9)	(3.0)	(5.0)	(218.6)
Amount reversed	(4.0)	-	(1.0)	(2.1)	(7.1)
At 30 June 2018	284.8	92.7	19.7	74.9	472.1
Current	253.6	72.1	5.1	20.6	351.4
Non-current	31.2	20.6	14.6	54.3	120.7
At 30 June 2018	284.8	92.7	19.7	74.9	472.1
Balance at 20 October 2016	-	-	-	-	-
Business combination	320.4	47.2	22.0	81.4	471.0
Additional provision	91.2	105.2	4.4	3.1	203.9
Unwinding of discount	-	-	-	1.4	1.4
Amounts used	(85.8)	(18.7)	(4.4)	(3.1)	(112.0)
Amount reversed	(44.2)	-	(1.5)	(10.0)	(55.7)
At 30 June 2017	281.6	133.7	20.5	72.8	508.6
Current	241.7	83.5	5.4	21.7	352.3
Non-current	39.9	50.2	15.1	51.1	156.3
At 30 June 2017	281.6	133.7	20.5	72.8	508.6

(a) Employee benefits

The provision for employee benefits relates to amounts accruing to employees up to reporting date in respect of employee benefits including annual leave, preserved sick leave, and long service leave. Amounts provided for in relation to long service leave and preserved sick leave are based on an actuarial assessment and associated formulae provided for intervening periods between assessments.

All other employee benefits amounts expected to be settled in 12 months have been measured at the amounts expected to be paid when the liabilities are settled. The non-current provision for employee benefits include \$5.6 million relating to defined benefit plan liability (30 June 2017: \$7.4 million). Refer to Note 19 for details.

(b) Restructuring

The Ausgrid Group is in the process of implementing its Transformation Program, which involves restructuring parts of the business. The Transformation Program will result in a significant reorganisation of functions, including a reduction in headcount. The restructuring provision reflects the costs of the employees for the period in which those employees are surplus to requirements from 30 June 2018 until they leave the organisation. The provision also includes the cost of redundancy payments expected to be made.

The process used to measure this provision requires management judgement in making estimations based on historical experience and existing plans.

14 Provisions (continued)

(c) Insurance

The insurance provision relates to workers compensation and general insurance. The Ausgrid Group is a self-insurer through its insurance provision for workers' compensation and meets all liabilities under the Workers' Compensation legislation in NSW and other states. The liabilities cover claims incurred but not yet reported and the anticipated fund management fees in respect of the management of those claims.

A bank guarantee is held for security and can be drawn down in the event of a default. Refer to Note 24 for details.

(d) Other

Other provisions consist of site remediation provisions, restoration provisions costs relating to decommissioning of assets, make good provisions and other provisions relating to litigation matters.

(i) *Provision for site remediation*

A provision for site remediation was created to cover contaminated land and building remediation costs to be incurred during subsequent years.

The provision as at 30 June 2018 was \$13.8 million (30 June 2017: \$11.5 million). The provision is the best estimate of the present value of the expenditure required to settle the obligation at the reporting date, based on current legal requirements and technology. Future costs are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period.

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

(ii) *Provision for Polychlorinated Biphenyls disposal costs*

A provision for future Polychlorinated Biphenyls (**PCB**) disposal costs at the end of life system equipment where there is a legislative obligation to perform this.

The provision as at 30 June 2018 was \$17.4 million (30 June 2017: \$19.3 million). The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future disposal costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

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

(iii) *Provision for costs relating to decommissioning assets*

The provision to cover the expected future costs associated with decommissioning the Ausgrid Group's network assets as at 30 June 2018 was \$40.1 million (30 June 2017: \$38.5 million). Future costs are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period.

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

(iv) *Provision for make good*

The Ausgrid Group is required to restore a number of non-network leased premises to their original condition. A provision has been recognised for the amount payable in terms with the lease agreement. The provision as at 30 June 2018 was \$3.6 million (30 June 2017: \$3.5 million).

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



15 Other liabilities

	30 June 2018 \$M	30 June 2017 \$M
Current		
Deposits	1.7	3.8
Deferred revenue	5.9	7.0
Total current other liabilities	<u>7.6</u>	<u>10.8</u>
 Non-current		
Deposits	0.5	0.5
Deferred revenue	-	1.3
Total non-current other liabilities	<u>0.5</u>	<u>1.8</u>

16 Derivatives

	30 June 2018 \$M	30 June 2017 \$M
Non-current asset		
IRS	47.1	75.0
CCIRS	48.2	-
Total non-current derivative financial asset	<u>95.3</u>	<u>75.0</u>
 Total derivative financial asset	<u>95.3</u>	<u>75.0</u>
 Current liability		
IRS	-	(0.1)
Total current derivative financial liability	<u>-</u>	<u>(0.1)</u>
 Non-current liability		
IRS	(12.0)	-
CCIRS	(27.5)	-
Total non-current derivative financial liability	<u>(39.5)</u>	<u>-</u>
 Total derivative financial liability	<u>(39.5)</u>	<u>(0.1)</u>
 Net derivative financial asset	<u>55.8</u>	<u>74.9</u>



17 Partner capital

	AOP		AAP		PES	
	Number	\$M	Number	\$M	Number	\$M
30 June 2018						
Ordinary capital interest	504	864.8	504	3,538.3	504	55.4
A class capital interest	496	851.1	496	3,482.2	496	54.6
Total contributed equity	1,000	1,715.9	1,000	7,020.5	1,000	110.0

30 June 2017						
Ordinary capital interest	504	864.8	504	3,538.3	-	-
A class capital interest	496	851.1	496	3,482.2	-	-
Total contributed equity	1,000	1,715.9	1,000	7,020.5	-	-

(a) Partner capital

Ordinary capital interest

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

A class capital interest

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

(b) Partnership liability

Each Partner is responsible for discharging the liabilities of AOP, AAP and PES, in proportion with their respective Partnership interest.

(c) Distribution

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

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



18 Retained earnings

	AOP \$M	AAP \$M	PES \$M	Total \$M
Balance at 1 July 2017	(60.0)	(840.5)	-	(900.5)
Profit/(loss) for the year	216.6	308.8	(8.8)	516.6
Distributions paid	(259.6)	(244.8)	-	(504.4)
Balance at 30 June 2018	(103.0)	(776.5)	(8.8)	(888.3)

Balance at 20 October 2016	-	-	-	-
Profit/(loss) for the period	11.6	(713.9)	-	(702.3)
Distributions paid	(71.6)	(126.6)	-	(198.2)
Balance at 30 June 2017	(60.0)	(840.5)	-	(900.5)

19 Superannuation - Defined benefit plan

Ausgrid Group has a defined benefit superannuation plan (**the Fund**) covering a significant number of employees, which requires contributions to be made to a separately administered fund.

(a) Nature of the benefits provided by the Fund

The Energy Industries Superannuation Scheme (the **Scheme**) is divided into seven divisions, of which Divisions B, C and D provide defined benefits, that is at least a component of the final benefit which is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. Divisions B, C and D are closed to new members except for members of eligible schemes who can transfer their entitlements into the Scheme.

Disclosures below are prepared in relation to Divisions B, C and D only. These Divisions are referred to collectively as 'the Fund'.

(b) Risk exposure

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

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

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

19 Superannuation - Defined benefit plan (continued)

(c) Reconciliation of the net defined benefit liability

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

	Present value of obligations \$M	Fair value of plan assets \$M	Total \$M
At 1 July 2017	385.1	(377.7)	7.4
Current service cost	7.0	-	7.0
Interest expense/(income)	14.5	(14.3)	0.2
Settlements	(27.5)	28.5	1.0
Expense recognised in profit or loss	(6.0)	14.2	8.2
Contributions by the Fund participants:			
Employers	-	(8.0)	(8.0)
Plan participants	3.4	(3.4)	-
	3.4	(11.4)	(8.0)
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	-	(3.3)	(3.3)
Gain from change in liability experience	(4.8)	-	(4.8)
Loss from change in financial assumptions	6.1	-	6.1
Income recognised in other comprehensive income	1.3	(3.3)	(2.0)
Benefits paid	(29.7)	29.7	-
Tax and expenses paid	(2.3)	2.3	-
	(32.0)	32.0	-
At 30 June 2018	351.8	(346.2)	5.6

19 Superannuation - Defined benefit plan (continued)

(d) Fair value of Fund assets

All Division B, C and D assets are held in Pool B of the Scheme. Pool B in turn holds units invested in the Energy Investment Fund, a pooled superannuation trust. As such, assets are not separately invested for each employer and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities, and the disclosures below relate to total assets of Pool B of the Scheme. Please refer to Note 27(f) for the detailed discussion on fair value hierarchy.

Asset category	Total \$M	Quoted price in active markets for identical assets Level 1 \$M	Significant observable input Level 2 \$M	Unobservable input Level 3 \$M
At 30 June 2018				
Energy Investment Fund	<u>1,950.5</u>	<u>-</u>	<u>1,950.5</u>	<u>-</u>
At 30 June 2017				
Energy Investment Fund	<u>1,977.6</u>	<u>-</u>	<u>1,977.6</u>	<u>-</u>

(e) Significant actuarial assumptions at the reporting date

Expected salary increase rate (excluding promotional increase)	2.50% pa for 2018/19 (2017: 2.50% pa for 2017/18 and 2018/19) 2.25% pa for 2019/20 (2017: 2.00% pa for 2019/20 and 2020/21) 2.50% pa thereafter (2017: 2.20% pa from 1 July 2021)
Rate of CPI increase	2.50% pa (2017: 2.20% pa)
Discount rate	4.16% pa (2017: 4.06% pa)
Pensioner mortality	The pensioner mortality rates used are as per the triennial valuation of the Scheme as at 30 June 2015. The pension mortality rates are based on experience of the NSW public sector.



20 Key management personnel compensation

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

Non-Executive Directors

Dr Helen Nugent AO

Ashley Barker

Catharine Bowtell

Michael Byrne

Michael Hanna

Jason Peasley

Belinda Gibson

Laura Reed

Robert Wright

The above are Non-Executive Directors of AOP, AAP and PES. In addition to the above, Hugh Gleeson is a Non-Executive Director of AOP and AAP, and Derek Chu is a Non-Executive Director of PES.

Key management personnel remuneration

In addition to their salaries, the Ausgrid Group also provides post-employment benefits to key management personnel. In the case of the Non-Executive Directors, apart from the Chairman, remuneration is paid by the relevant Partner.

On that basis, the remuneration of the key management personnel was:

	Year ended 30 June 2018	Period from 20 Oct 2016 to 30 June 2017
	\$	\$
Short-term employee benefits	7,474,967	4,419,739
Post-employment benefits	366,274	246,619
Long-term benefits	692,270	748,433
Termination benefits	1,415,576	1,585,829
	9,949,087	7,000,620



21 Remuneration of auditors

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

(a) PricewaterhouseCoopers Australia (PwC)

(i) Audit and other assurance services

	30 June 2018	30 June 2017
	\$	\$
Audit and review of financial statements		
Audit for the year ended 30 June 2018	892,500	631,250
Re-audit of 30 November 2016 and 30 June 2016	-	1,042,530
Other assurance services		
Audit of debt offering documents	986,000	264,000
Regulatory audit services	423,000	238,750
Accounting advice services	70,400	-
Total remuneration for audit and other assurance services	<u>2,371,900</u>	<u>2,176,530</u>

(ii) Other non-assurance services

Workshops and training services	289,000	-
Tax compliance services	225,000	-
Total remuneration for other non-assurance services	<u>514,000</u>	<u>-</u>

Total remuneration of PwC	<u>2,885,900</u>	<u>2,176,530</u>
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22 Capital expenditure commitments

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

	30 June 2018 \$M	30 June 2017 \$M
Within one year	315.4	78.4
Later than one year but no later than five years	6.0	-
	321.4	78.4

23 Leases

(a) Operating leases

(i) Lease commitments - leases as lessee

	30 June 2018 \$M	30 June 2017 \$M
Non-cancellable operating leases are payable as follows:		
Within one year	12.4	15.4
Later than one year but no later than five years	6.3	17.7
Later than five years	63.4	58.5
	82.1	91.6

The Ausgrid Group leases various premises under operating leases including depot and office facilities, and a number of offices at interstate locations. Lease payments under these leases are subject to annual, biennially or triennially reviews to reflect market rentals.

The Ausgrid Group leases its passenger fleet and some light commercial fleet under operating leases. The majority of the fleet leases are fully maintained leases and typically run for a period of three or four years dependent on business requirements.

Under the 99 year lease agreement, the Ausgrid Group will pay the Alpha Distribution Ministerial Holding Corporation \$550,000 per annum rent plus consumer price index (**CPI**) from 1 December 2017. This is accounted for as an operating lease commitment.

(ii) Lease receivables - leases as lessor

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

	30 June 2018 \$M	30 June 2017 \$M
Within one year	6.5	4.1
Later than one year but no later than five years	8.4	5.1
Later than five years	4.3	5.0
	19.2	14.2



23 Leases (continued)

(b) Finance leases

(i) Lease commitments - leases as lessee

The Ausgrid Group has long term lease arrangements for land.

	30 June 2018 \$M	30 June 2017 \$M
Commitments in relation to finance leases are payable as follows:		
Within one year	2.1	1.5
Later than one year but no later than five years	7.8	7.8
Later than five years	84.4	87.0
Minimum lease payments	<u>94.3</u>	<u>96.3</u>
Future finance charges	(76.9)	(78.6)
Recognised as a liability	<u>17.4</u>	<u>17.7</u>

The present value of finance lease liabilities is as follows:

Within one year	2.1	1.5
Later than one year but no later than five years	6.1	6.1
Later than five years	9.2	10.1
	<u>17.4</u>	<u>17.7</u>

(ii) Leased assets

On 1 December 2016, the Ausgrid Group entered into a 99 year finance lease of the leased assets described below with the NSW State Government. The carrying value of these leased assets are as follows:

	30 June 2018 \$M	30 June 2017 \$M
Land and buildings	625.9	628.1
Network assets	15,357.8	15,139.0
Plant and equipment	15.4	37.1
	<u>15,999.1</u>	<u>15,804.2</u>



24 Contingent liabilities and contingent assets

	30 June 2018 \$M	30 June 2017 \$M
Contingent liabilities		
Guarantees provided to regulatory and statutory authorities	20.7	29.4
Guarantees provided to external parties	5.4	5.0
Potential claims from litigation	-	0.7
	26.1	35.1
Contingent assets		
Potential recoveries from claims	-	0.1
	-	0.1

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

25 Group entities

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

Name of entity	Equity holding	
	30 June 2018 %	30 June 2017 %
Ausgrid Asset Partnership	100	100
Ausgrid Management Pty Limited	100	100
Ausgrid Finance Pty Limited	100	100
Plus ES Partnership	100	-
Plus ES Management 1 Pty Limited	100	-
Plus ES Management 2 Pty Limited	100	-
Active Stream Pty Limited	100	-



26 Cash flow information

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

	Year ended 30 June 2018 \$M	Period from 20 Oct 2016 to 30 June 2017 \$M
Profit/(loss) for the year/period	516.6	(702.3)
Add/(less) non-cash items:		
Depreciation and amortisation	550.1	309.4
Non cash capital contributions	(124.0)	(65.1)
Amortisation of loan transaction costs	50.7	14.7
Capitalised interest	(4.4)	(3.2)
Impairment of trade receivables	(0.2)	(0.2)
Loss on disposal of property, plant and equipment	10.0	12.3
Unwinding of discount	4.4	1.4
Unwinding of government grants	(1.5)	(0.9)
Finance lease interest	2.1	0.8
Defined benefit plan	0.2	3.4
Inventory provision	2.7	3.7
Hedge ineffectiveness	(3.9)	-
Changes in assets and liabilities:		
Trade and other receivables	(20.7)	(7.1)
Inventories	(5.1)	(4.2)
Trade and other payables	20.9	204.9
Provisions	(38.2)	30.4
Other liabilities	(4.5)	2.0
Net cash inflow/(outflow) from operating activities	955.2	(200.0)

27 Financial risk management

(a) Financial risk management objectives and policies

The Ausgrid Group is involved in activities that expose it to a variety of financial risks including credit risk, fair value risk, interest rate risk and currency risk. In accordance with Board approved policies, financial instruments may be used to hedge the exposures to fluctuations in exchange rates and interest rates.

The Ausgrid Group manages exposure to key financial risks including credit risk, currency risk, interest rate risk, and liquidity risk, in accordance with the Board's financial risk management policies. The Board reviews and agrees policies for managing each of the key financial risks.

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

The objective of the Ausgrid Group's financial risk management strategy is to protect Ausgrid Group's cash flows, profitability and reputation and maintain a minimum long term, standalone credit rating of bbb/baa2 (S&P Global Ratings (**S&P**), and/or Moody's Investor Services, and/or Fitch Rating Services). This includes the need to ensure that sufficient liquidity is available to fund its strategic business plans. Identification and analysis of relevant financial risks and its impact on the achievement of the Ausgrid Group's objectives forms the basis for determining how such risks should be managed. The forecast financial position for the Ausgrid Group is regularly monitored and financial instruments may be used within approved guidelines, to hedge exposure to fluctuations in interest rates, energy prices and exchange rates.

(b) Credit risk

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

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

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

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

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

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

27 Financial risk management (continued)

(b) Credit risk (continued)

The loss allowance provision as at 30 June 2018 is determined as follows. The expected credit losses below also incorporate forward looking information:

	Current	Less than 3 months past due	3 to 6 months past due	Later than 6 months past due	Total
30 June 2018					
Expected loss rate	0.02%	1.42%	6.67%	40.00%	
Gross carrying amount (\$M)	388.3	12.7	1.5	2.4	404.9
Loss allowance provision (\$M)	-	(0.2)	(0.1)	(1.0)	(1.3)
Total	388.3	12.5	1.4	1.4	403.6

30 June 2017					
Expected loss rate	0.01%	1.45%	19.17%	52.86%	
Gross carrying amount (\$M)	388.5	5.5	1.2	2.8	398.0
Loss allowance provision (\$M)	-	(0.1)	(0.2)	(1.5)	(1.8)
Total	388.5	5.4	1.0	1.3	396.2

(c) Market risk

(i) Currency risk

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

The Ausgrid Group uses forward exchange contracts and CCRIS to hedge to hedge its foreign currency risk for all foreign exchange exposures that exceed \$5.0 million in value.

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

Sensitivity

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

	Impact on post-tax profit 2018 \$M	Impact on other components of equity 2018 \$M
US\$/A\$ exchange rate - increase 10% ¹	(1.8)	14.5
US\$/A\$ exchange rate - decrease 10% ¹	4.2	(18.2)
EUR/A\$ exchange rate - increase 10% ¹	(2.8)	1.3
EUR/A\$ exchange rate - decrease 10% ¹	(1.7)	3.5

(1) Holding all other variables constant

27 Financial risk management (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Sensitivity (continued)

The Ausgrid Group entered into US dollar and EUR denominated borrowings in the current year. The effects of the foreign currency related hedging instruments on the Ausgrid Group's financial position and performance are as follows:

Derivative financial instruments - CCIRS (USPP and US144A)

	30 June 2018
Carrying amount (\$M)	170.7
Notional amount in USD (\$M)	2,630.0
Maturity date	May 2023 - Oct 2032
Hedge ratio	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	203.8
Change in value of derivative used to determine hedge effectiveness (\$M)	202.7
Weighted average hedge rate for the year	0.78

Derivative financial instruments - CCIRS (EMTN)

Carrying amount (\$M)	(33.0)
Notional amount in EUR (\$M)	650.0
Maturity Date	Jul 2025
Hedge ratio	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	(21.9)
Change in value of derivative used to determine hedge effectiveness (\$M)	(21.3)
Weighted average hedge rate for the year	0.63

(ii) Cash flow and fair value interest rate risk

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

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

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

Instruments used by the Ausgrid Group

Swaps currently in place cover 98.2% (2017: 100%) of the variable loan principal outstanding.

The contracts require settlement of net interest receivable or payable on the first business day post each quarter end. The settlement dates coincide with the dates on which interest is payable on the underlying debt and settlement occurs on a net basis.

The Ausgrid Group used the corporate bond yield curve as at 30 June 2018 plus an adequate constant credit spread to discount financial instruments. As at the end of the reporting period, the Ausgrid Group had the following variable rate borrowings and IRS contracts outstanding:



27 Financial risk management (continued)

(c) Market risk (continued)

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

Instruments used by the Ausgrid Group (continued)

	Weighted average interest rate %	Balance \$M	% of total loans
30 June 2018			
Bank overdrafts, bank loans and note issuances ¹	3.51	12,339.9	100.0%
IRS (notional principal amount) ²	2.18	12,114.8	98.2%
Net exposure to cash flow interest rate risk	3.20 - 3.91	225.1	1.8%
30 June 2017			
Bank overdrafts, bank loans and note issuances	3.07	11,931.3	100.0%
IRS (notional principal amount)	2.13	11,931.3	100.0%
Net exposure to cash flow interest rate risk	2.13 - 3.17	-	-%

(1) Includes fixed rate note issuance swapped into floating rate AUD obligation

(2) Excludes forward starting swaps commencing post 30 June 2018

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

	Year ended 30 June 2018		Period from 20 Oct 2016 to 30 June 2017	
	Notional in AUD \$M	Notional swapped to fixed AUD via CCIRS/IRS \$M	Notional in AUD \$M	Notional swapped to fixed AUD via CCIRS/IRS \$M
A\$ denominated fixed rate liability	970.0	970.0	-	-
US\$ denominated fixed rate liability	3,558.9	3,558.9	-	-
EUR denominated fixed rate liability	1,023.5	1,023.5	-	-
A\$ denominated floating rate liability	6,787.5	6,562.5	11,931.3	11,931.3
	12,339.9	12,114.9	11,931.3	11,931.3

Net floating exposure: 1.8% (2017: nil)

The Ausgrid Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. The Ausgrid Group has variable rate financial liabilities at year end. The Ausgrid Group's borrowings are 98.2% hedged. A change in interest rates by one percentage point at reporting date would have an impact on the Ausgrid Group's profit or loss or equity as discussed below.

Sensitivity

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

27 Financial risk management (continued)

(c) Market risk (continued)

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

	Impact on post-tax profit		Impact on other components of equity	
	2018	2017	2018	2017
	\$M	\$M	\$M	\$M
Interest rates - increase by 100 basis points ¹	-	-	0.4	0.5
Interest rates - decrease by 100 basis points ¹	-	-	(0.4)	(0.5)

(1) Holding all other variables constant

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

Derivative financial instruments - IRS¹

	30 June 2018	30 June 2017
Carrying amount (\$M)	36.8	75.0
Notional amount (\$M)	13,547.9	12,826.1
	Jul 2018 - Aug 2024	Jul 2017 - Jul 2027
Maturity date	2024	2027
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	29.8	75.0
Change in value of derivative used to determine hedge effectiveness (\$M)	38.7	75.0
Weighted average hedge rate for the year	2.24%	2.13%

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

Derivative financial instrument - CCIRS

Carrying amount (\$M)	(122.8)	-
Notional amount (\$M)	4,399.4	-
	May 2023 - Oct 2032	-
Maturity date	Oct 2032	-
Hedge ratio	1:1	-
Change in value of hedged item used to determine hedge effectiveness (\$M)	(123.2)	-
Change in value of derivative used to determine hedge effectiveness (\$M)	(121.7)	-
Weighted average hedge rate for the year	3.61%	-

(d) Capital risk management

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

An appropriate capital structure considering the following criteria:

- Maintain a standalone credit rating of bbb/bba2 in accordance with the Group Treasury Policy.
- Provision of an appropriate return to shareholders without compromising the principles or objectives of the Group Treasury Policy.
- Ability to meet key debt service criteria, based on industry benchmarks.
- Capacity to finance the approved capital expenditure program through internally generated cash flows and debt, with consideration of the current phase of the investment cycle.

27 Financial risk management (continued)

(d) Capital risk management (continued)

- Provision of sufficient flexibility for relevant contingencies.

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

(e) Liquidity risk

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

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

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

(i) *Maturities of financial liabilities*

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

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

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

27 Financial risk management (continued)

(e) Liquidity risk (continued)

(i) Maturities of financial liabilities (continued)

Contractual maturities of financial liabilities	Less than 6 months \$M	6 - 12 months \$M	Between 1 and 2 years \$M	Between 2 and 5 years \$M	Over 5 years \$M	Total contractual cash flows \$M	Carrying amount \$M
At 30 June 2018							
Non-derivatives							
Trade payables	301.6	-	-	-	-	301.6	301.6
Borrowings	117.6	198.9	1,508.8	5,433.3	6,855.3	14,113.9	12,120.7
Finance leases	0.9	1.2	2.0	5.8	84.4	94.3	17.4
Total non-derivatives	420.1	200.1	1,510.8	5,439.1	6,939.7	14,509.8	12,439.7
Derivatives							
IRS net settled	1.4	(12.5)	(2.3)	108.6	126.8	222.0	35.1
CCIRS gross settled							
- inflow	43.5	67.1	146.7	439.3	626.6	1,323.2	20.7
- (outflow)	(42.0)	(77.4)	(170.6)	(624.1)	(1,032.4)	(1,946.5)	-
Total derivatives	2.9	(22.8)	(26.2)	(76.2)	(279.0)	(401.3)	55.8
	423.0	177.3	1,484.6	5,362.9	6,660.7	14,108.5	12,495.5
At 30 June 2017							
Non-derivatives							
Trade payables	272.0	-	-	-	-	272.0	272.0
Borrowings	202.6	198.2	2,365.6	9,309.4	1,514.0	13,589.8	11,823.1
Finance leases	0.7	0.8	2.9	3.0	63.3	70.7	17.7
Total non-derivatives	475.3	199.0	2,368.5	9,312.4	1,577.3	13,932.5	12,112.8
Derivatives							
IRS net settled	(0.1)	-	(0.8)	2.8	64.9	66.8	74.9
Total derivatives	(0.1)	-	(0.8)	2.8	64.9	66.8	74.9
	475.2	199.0	2,367.7	9,315.2	1,642.2	13,999.3	12,187.7

27 Financial risk management (continued)

(f) Recognised fair value measurements

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

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

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

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

30 June 2018	Notes	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Recurring fair value measurements					
Derivatives	16	-	55.8	-	55.8
Total		-	55.8	-	55.8
Non-recurring fair value measurements					
Assets classified as held for sale	9	-	9.5	-	9.5
Total		-	9.5	-	9.5
30 June 2017					
Recurring fair value measurements					
Derivatives	16	-	74.9	-	74.9
Total		-	74.9	-	74.9
Non-recurring fair value measurements					
Assets classified as held for sale	9	-	13.6	-	13.6
Total		-	13.6	-	13.6

(g) Recurring fair value measurements

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

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

(h) Non-recurring fair value measurements

Non-current assets classified as held for sale during the reporting period are measured at the lower of their carrying amount and fair value less cost to sell and are included in Level 2.

27 Financial risk management (continued)

(h) Non-recurring fair value measurements (continued)

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

(i) Fair value versus carrying amount

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

		30 June 2018		30 June 2017	
Notes	Carrying amount \$M	Fair value \$M	Carrying amount \$M	Fair value \$M	
Financial assets carried at amortised cost					
Cash and cash equivalents	217.3	217.3	323.4	323.4	
Trade and other receivables (excluding prepayments)	8	403.6	396.6	396.6	
Total financial assets		620.9	720.0	720.0	
Financial liabilities carried at amortised cost					
Borrowings	13	12,120.7	11,823.1	11,995.0	
Finance lease liabilities	13	17.4	17.7	17.7	
Trade and other payables	12	301.6	272.0	272.0	
Deposits	15	2.2	4.3	4.3	
Total financial liabilities		12,441.9	12,117.1	12,289.0	

28 Events occurring after the reporting period

On 30 July 2018, a distribution of \$43.2 million was made to the Partners of AOP. No distributions were made by AAP or PES. This was approved by their respective Boards on 30 July 2018.

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

In the Directors' opinion:

- (a) the consolidated financial statements and notes set out on pages 2 to 57 are in accordance with the Partnership Deeds, and:
 - (i) comply with Accounting Standards as described in Note 1 to the consolidated financial statements and other mandatory professional reporting requirements;
 - (ii) give a true and fair view of the entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Ausgrid Group will be able to pay its debts as and when they become due and payable.

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

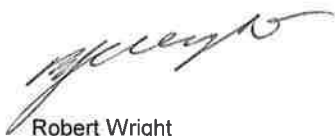
The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer consistent with a listed entity requirement under section 295A of the *Corporations Act 2001*.

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



Dr Helen Nugent AO
Director

28 August 2018



Robert Wright
Chairman Audit Committee

28 August 2018



Independent auditor's report

To the partners of Ausgrid Group

Report on the audit of the financial report

Our opinion

In our opinion, the accompanying financial report gives a true and fair view of the financial position of Ausgrid Group as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with the accounting policies described in Note 1.

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

What we have audited

The Group financial report comprises:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2018
- the consolidated statement of financial position as at 30 June 2018
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001

T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124

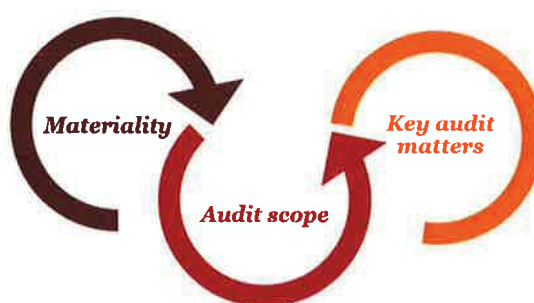
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

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Our audit approach

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

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



Materiality	Audit scope	Key audit matters
- For the purpose of our audit we used overall materiality of \$38 million, which represents approximately 2.5% of the Ausgrid Group earnings before interest, tax, depreciation and amortisation (EBITDA). - We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. - We chose EBITDA because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. - We utilised a 2.5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds.	- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. The Group has operations across Sydney, the Central Coast and Hunter regions within New South Wales, with the accounting functions led from the Group's corporate head office in Sydney and Wallsend in Newcastle. - The Group is made up of 2 cash generating units. AOP & AAP and the entities they control, represent the Network Service Provider ("NSP") CGU and PES and the entities it controls represents the PES CGU (as detailed in Note 11a). - We conducted an audit of the financial information of NSP and PES given their financial significance to the Group.	- Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee: - Goodwill impairment assessment of NSP and PES CGUs - Refinancing and associated derivatives - These are further described in the <i>Key Audit Matters</i> section of our report.

Key audit matters

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

Key audit matter

How our audit addressed the key audit matter

Goodwill impairment assessment of NSP and PES CGUs

Refer to Note 11

The Group's goodwill is required by Australian Accounting Standards to be assessed at year-end for impairment at the cash-generating unit (CGU) level.

The Group performed an impairment assessment over goodwill by calculating the fair value less cost of disposal for each CGU, using discounted cash flow models (the models).

Key judgements used in the models included discount rates, terminal growth rates and the assumption that there would be no significant changes to underlying cash flows in the forecast periods.

We considered the impairment assessment to be a key audit matter due to the size of the goodwill balance and the judgements required by the Group in assessing whether an impairment was required.

To evaluate the Group's future cash flow forecasts and the process by which they were drawn up, we performed the following procedures amongst others:

- Assessed whether the Group's identification of CGUs, which are the smallest identifiable groups of assets that can generate largely independent cash inflows, was consistent with our knowledge of the operations and with management's internal reporting.
- Considered if the models were consistent with the basis of preparation required by Australian Accounting Standards and appropriately included the likely transaction costs associated with disposing of the CGU.
- Tested on a sample basis, the mathematical accuracy of the models.
- Tested if forecast cash flows used in the models were consistent with the most up-to-date business plan formally approved by the Board for FY19-FY24.
- Evaluated the Group's historical ability to forecast future cash flows by comparing budgets with reported actual results for the past financial period ended 30 June 2017.
- Tested whether the discount rates used in the models appropriately reflected the risks of the CGUs by performing a shadow weighted average cost of capital (WACC) discount rate calculation together with PwC valuation experts. We noted that the rates used by the Group fell within an acceptable range for both CGUs.
- Compared long term growth rates used by the Group to economic and industry forecasts and found that they were consistent.
- Performed sensitivity analysis around the achievement of cash flow forecasts.
- Considered the Group's sensitivity analysis on the key assumptions used in the models (discount rates, terminal growth rate, cash flow variability) to assess under which assumptions an impairment would occur and whether this was reasonably possible. We found that these assumptions were consistently applied and in line with our expectations which were based on historical experience and industry performance.
- Considered if estimating 'fair value less costs of disposal' was the best basis upon which to infer value of the CGU and considered relevant recent market transactions as a cross check against the valuation outcomes.
- Evaluated the adequacy of the disclosures made in Note 11,

Key audit matter

How our audit addressed the key audit matter

including those regarding the key assumptions and sensitivities to changes in such assumptions, in light of the requirements of Australian Accounting Standards.

Key audit matter

How our audit addressed the key audit matter

Refinancing and associated derivatives

Refer to Note 13 'Borrowings' and Note 16 'Derivatives'

The Group had \$12.1 billion of borrowings at 30 June 2018. During the year, the Group accessed new lenders in local and international markets to refinance the existing debt facility. The refinancing transactions were considered a key audit matter given:

1. They represented significant new and unique transactions in the current year.
2. The magnitude of the refinancing transactions constitute a significant portion of total borrowings, which is the largest non-current liability in the consolidated statement of financial position.
3. The derivatives established upon refinancing were considered complex due to the large notional values, composition of cross currency and interest rate swaps and long time to maturity. The valuation of derivatives established on day 1, the new arrangement considerations, valuation at financial year end, and hedge accounting required additional audit attention.

We performed the following procedures, amongst others, over refinancing and associated derivatives:

- Obtained confirmations directly from the Group's banks and private lenders to confirm the balance of borrowings, tenure and conditions at balance date.
- Read the most up-to-date agreements between Ausgrid Finance Pty Limited and its financiers to develop an understanding of the key terms of the refinancing transactions.
- Traced a sample of cash receipts for borrowings drawn down to the relevant agreements and assessed whether the journals associated with the settlement of the refinancing transactions were recorded in accordance with the Group's accounting policy and the requirements of Australian Accounting Standards.
- Assessed the accounting treatment of the capitalised borrowing costs arising from new arrangements and borrowing costs related to terminated facilities.
- For a sample of swap contracts, we agreed critical terms in the contracts, such as payment terms, interest rates, and start and end dates to the details recorded in the Group's Treasury Management system.
- Where debt was classified as non-current, we tested the Group's assessment that they had the unconditional right to defer payment such that there were no repayments required within 12 months from the balance date.
- For a sample of derivatives, we compared the Group's valuation to credit spreads, interest rate curves and the revaluation reports generated through Bloomberg.
- Evaluated whether the disclosures were consistent with the requirements of Australian Accounting Standards.

Other matter

As disclosed in Note 1 to the financial statements, the financial report has been prepared by the Directors to meet the information needs of the partners of AOP, AAP and PES as required under the Partnership Deeds dated 20 October 2016 (AOP and AAP) and 1 November 2017 (PES). As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the partners of Ausgrid Group.

Responsibilities of the Directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar5.pdf. This description forms part of our auditor's report.



PricewaterhouseCoopers



Brett Entwistle
Partner

Sydney
28 August 2018