



Ausgrid Lender Presentation

SEPTEMBER 2019
CONFIDENTIAL



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Presenter



Michael Bradburn

Chief Financial Officer

Michael has more than 20 years' experience in financial, commercial planning and audit roles across a range of industry sectors.

Michael's prior roles have included CFO of Viva Energy Australia, CFO of Brisbane Airport Corporation and senior financial and commercial roles at Asciano Limited (and its predecessor, Patrick Corporation).

Michael is a Chartered Accountant, a member of the Association of Chartered Certified Accountants and a graduate of the Australian Institute of Company Directors. He also holds a Master of Business Administration from Australian Graduate School of Management (AGSM) and a Bachelor of Business.

Michael is a member of the Australian Institute of Company Directors Reporting Committee and is a non-executive director of the Financial Executives Institute.



Ed Waters

Group Treasurer

Ed has more than 20 years' experience in banking and financial markets focusing on Capital Markets, Debt Origination, Structuring and Analytics.

Ed has held several senior roles in Australia and offshore. In his most recent position, Executive Director Debt Capital Markets at ANZ Banking Corporation (9 years), he was responsible for guiding many of Australia's top listed corporates, financial institutions and government related entities through the domestic and offshore capital markets including the utility and infrastructure sectors.

Earlier roles have included a variety of analytical and structuring responsibilities for Westpac Institutional Bank (7 years) in Sydney and Japan and management/economic consulting.

Ed holds a Bachelor of Economics (Finance) and Bachelor of Arts (Honours 1st class) majoring in Japanese language.

Glossary

AAP	Ausgrid Asset Partnership ¹	FY	Financial Year
ACS	Alternative Control Services	GDP	Gross Domestic Product
ADMHC	Alpha Distribution Ministerial Holding Corporation	IoT	Internet of Things
ADMS	Advanced Distribution Management System	LED	Light Emitting Diode
AEMC	Australian Energy Market Commission	NEM	National Electricity Market
AEMO	Australian Energy Market Operator	NER	National Electricity Rules
AER	Australian Energy Regulator	NSP	Network Service Provider
AMTN	Australian Medium Term Note	NSW	New South Wales
ANS	Ancillary Network Services	NUOS	Network Use of System
AOP	Ausgrid Operator Partnership ²	Opex	Operating expenditure
ASF	Asian Syndicated Facility	p.a.	per annum
AVR	Additional Voluntary Redundancy	PP&E	Property, Plant and Equipment
CAGR	Compound Annual Growth Rate	RAB	Regulated Asset Base
Capex	Capital expenditure	RBA	Reserve Bank of Australia
CCF	Climate Change Fund	RCP	Regulatory Control Period
CESS	Capital Expenditure Sharing Scheme	S&P	Standard & Poors
C&I	Commercial and Industrial	SCS	Standard Control Services
CPI	Consumer Price Index	SFA	Syndicated Facility Agreement
DNSP	Distribution Network Service Provider	STPIS	Service Target Performance Incentive Scheme
EA	Enterprise Agreement	TNSP	Transmission Network Service Provider
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation	Totex	Total expenditure
EBSS	Efficiency Benefit Sharing Scheme	USPP	US Private Placement
EMTN	Euro Medium Term Note	WACC	Weighted Average Cost of Capital
FTE	Full Time Employee	WC	Working Capital

1. Also referred to as NAP in loan documents
 2. Also referred to as NOP in loan documents

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Ausgrid investment highlights

Our vision is to become a leader in energy solutions, recognised locally and globally

1

Stable, regulated
natural monopoly

- ✓ Long-life essential infrastructure with stable, **inflation-protected cash flows**
- ✓ Regulated revenues are **insulated from volume exposure** through revenue cap regime
- ✓ AER has made a final revenue determination for Ausgrid that allows for clear and predictable revenue over five years, from 1 July 2019 to 30 June 2024
- ✓ **94% of revenues** are regulated

2

Nationally
significant
infrastructure

- ✓ Natural monopoly position in franchisee area within the State of NSW - **no competition** for transportation of electricity within Ausgrid's existing network
- ✓ Core infrastructure servicing Sydney and parts of NSW - the **most populous** state in Australia
- ✓ Australia is one of the few remaining AAA economies with **28 consecutive years positive GDP growth**
- ✓ NSW is rated AAA by the two major credit rating agencies: S&P and Moody's

3

Experienced
leadership

- ✓ Culture change and transition to **new executive leadership** with a significant **safety focus**
- ✓ Productivity improvements and operational savings from Transformation Program that bring positive influence on opex
- ✓ High quality network with significant capacity

4

Capital
management and
shareholder
support

- ✓ Strong **ownership base**
- ✓ **Baa1 by Moody's** and **BBB by S&P** credit rating and prudent capital management (baa2/bbb standalone credit profile is an Ausgrid policy and a requirement under the Partnership Deed with the NSW Government)
- ✓ Shareholders and management are committed to maintaining these credit ratings
- ✓ \$12.4 billion drawn debt with gearing of 79% net debt / RAB and **\$8.7 billion of acquisition equity value**

NSW economic overview

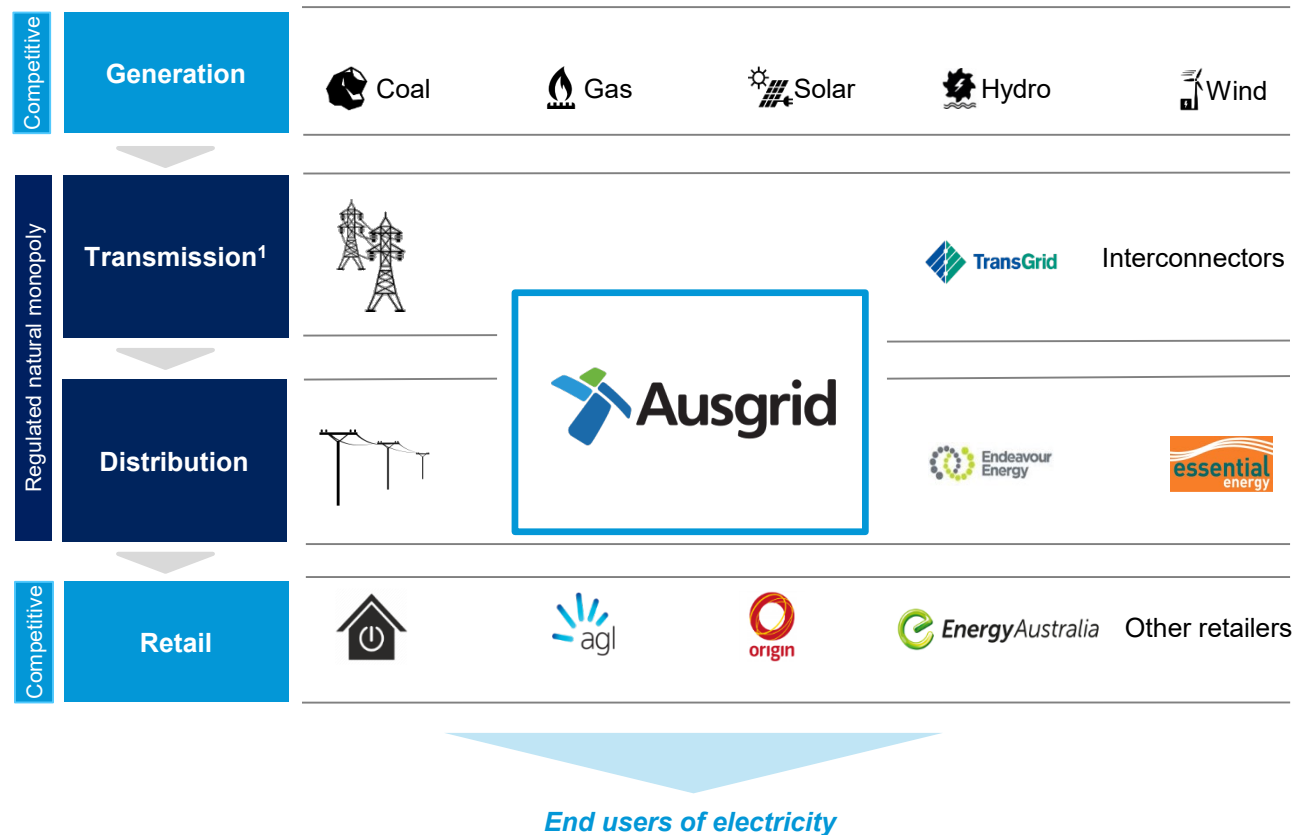
Sydney is the capital city of NSW, the driving force of economic growth across Australia



Key highlights

- 1 Australia has experienced **28 consecutive years of positive economic growth**
- 2 NSW is the largest economy and most populous state in Australia, representing **32% of the total Australian population** and over **5 million people** residing in Greater Sydney
- 3 The NSW economy represented **a third of Australia's GDP** for the year ended 30 June 2019
- 4 The 2019-20 NSW State Budget provides for an **infrastructure related capital spend of A\$93bn** over four years to 2022-23
- 5 NSW has **three major electricity distribution networks:** Ausgrid, Endeavour Energy and Essential Energy

Ausgrid position in the NSW electricity supply chain



Ausgrid network

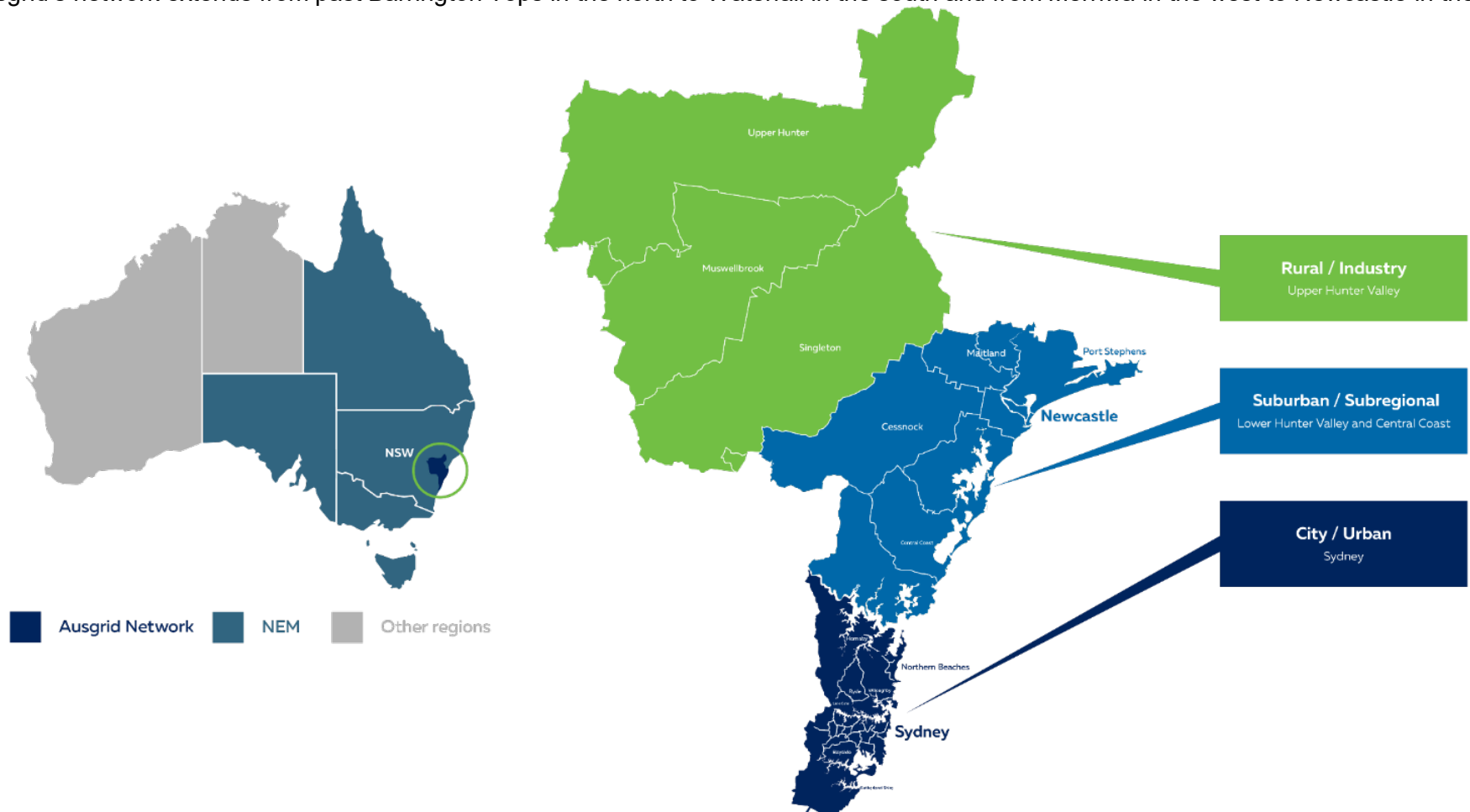
- Area covers 22,275 square kilometres
- Includes approximately 230 large substations
- 32,000 small distribution substations
- More than 500,000 power poles and 49,000 kilometres of below and above-ground electricity cables

	FY19
Network GWh	25,424
Customers	1.75 million
Revenue	\$2.598 billion
Employees	3,576
Total opex	\$996 million
Total capex	\$1.026 billion

1. Ausgrid's network of 132kV transmission cables in the inner metropolitan area of Sydney are directly connected to TransGrid's NSW main transmission network. Where these assets are operated in parallel and provide transmission services to support TransGrid's network, they are defined as transmission assets for the purposes of the NEM and are treated as dual-function assets under the NER. Ausgrid is therefore registered as both a DNSP and a TNSP. Dual function assets are regulated by the AER as if they were part of the distribution system for the purposes of revenue allowance determinations

Ausgrid network area

- Ausgrid's core business is building, extending, maintaining and operating the electricity distribution and transmission network in Ausgrid's supply area, spanning 22,275 square kilometres including eastern Sydney, the Central Coast and the Hunter Valley
- Ausgrid's network extends from past Barrington Tops in the north to Waterfall in the south and from Merriwa in the west to Newcastle in the east



Ownership overview

In December 2016, AustralianSuper and IFM Investors acquired a combined 50.4% interest in Ausgrid from the NSW Government via a 99 year lease

Governance arrangements

- Ausgrid has been majority owned by AustralianSuper and IFM Investors for almost three years now
- The NSW Government holds its 49.6% interest through a specially created entity and indirect subsidiaries which is independent from Government
- AustralianSuper and IFM Investors have a right of first offer in relation to any further sell down by the NSW Government
- Statutory independence, with state partner entities not subject to control or direction from the NSW Government
- In general, Board decisions can be made by ordinary majority (and AustralianSuper/IFM Investors appointed directors comprise an ordinary majority)
- Matters requiring unanimous decision are limited to matters such as constitutional amendments and dissolution/disposal of the business
- The NSW Government cannot divest its holding without enacting further enabling legislation

AustralianSuper (25.2%)


Over \$166 billion
Assets under management managed on behalf of more than 2.3 million members

- Australia's largest industry superannuation fund
- Large-scale, long-term infrastructure investor with an approved mandate to invest in meaningful core infrastructure assets
- Over \$17 billion of infrastructure investments
- Experienced infrastructure investor with assets including:
 - Utilities (Anglian Water in the UK)
 - Ports (Port of Brisbane, NSW Ports, Mersin International Port in Eastern Mediterranean, GCT Global Container Terminals in Canada)
 - Roads (TQ, Westconnex, Indiana Toll Road in the US, M6toll in Europe, Aleatica in Europe and Latin America)

IFM Investors (25.2%)


Over \$140 billion
Assets under management across infrastructure, listed equities, private capital and debt investments

- One of the world's largest owners and managers of nationally critical infrastructure assets
- Manages over \$58 billion of direct infrastructure investments globally
- Proven track record of transitioning infrastructure assets from government to private ownership
- Experienced infrastructure investor with assets including:
 - Utilities (Wyuna Water, Colonial Pipeline in the US, Arqiva Limited in the UK, Anglian Water in the UK)
 - Airports (Melbourne Airport, Brisbane Airport, Perth Airport, Adelaide Airport, NT Airports)
 - Ports (Port of Brisbane, NSW Ports)

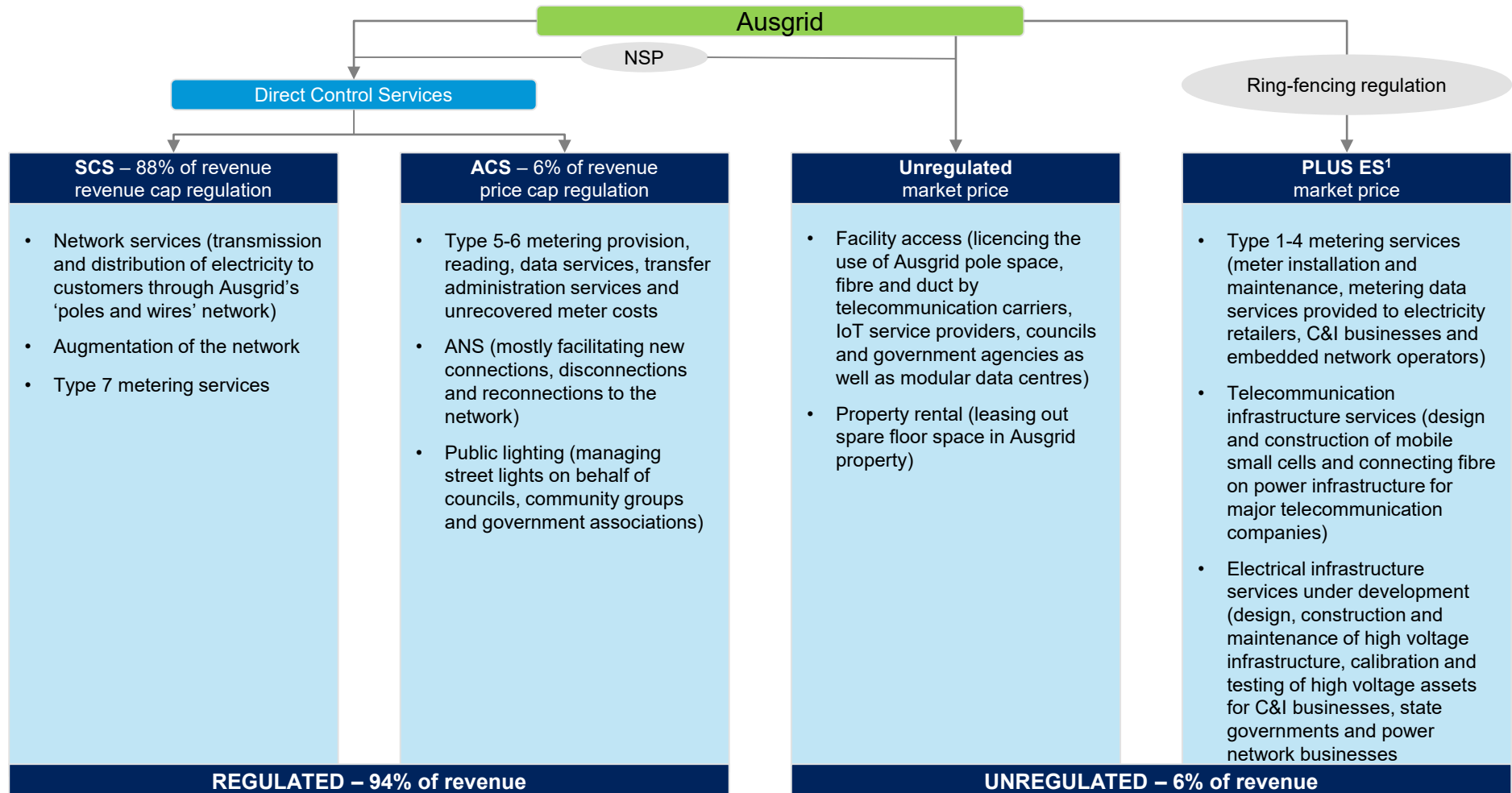
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Ausgrid revenue streams

Ausgrid has four distinct revenue streams which align to the regulatory framework: SCS, ACS, unregulated services and the ring-fenced PLUS ES business

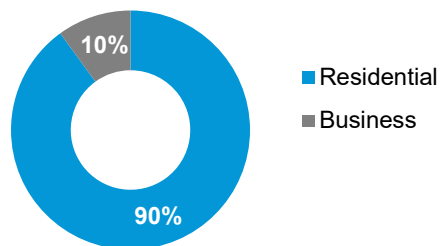


1. PLUS ES was founded by integrating Ausgrid's existing metering business with the AGL digital metering subsidiary acquired by Ausgrid in November 2017

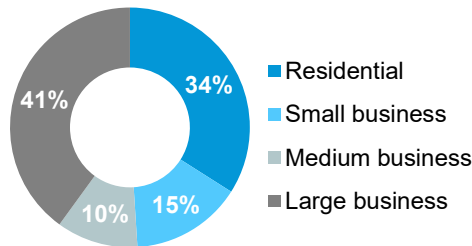
Customer profile

Ausgrid has a large and diverse end customer base

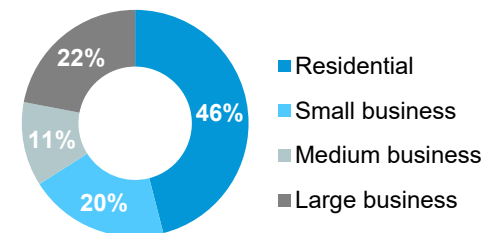
End customer type



Annual consumption



NUOS revenue



Overview

- 1.75 million end customers in FY19, representing almost half of the electricity customer connections in NSW
- Large business customers (i.e. customers > 750MWh p.a.) accounted for 22% of network revenue in FY19
- Diversified customer base – the largest customer accounts for <1% of network revenue
- Key retailers for Ausgrid are AGL (Baa2), EnergyAustralia (BBB+) and Origin Energy (Baa2/BBB)
- Credit terms with retailers and the regulatory regime allows for recovery in the event of retailer insolvency

Top 10 end customers with individually calculated tariff

No.	Customer	NUOS revenue (%) ¹
1	Sydney Trains	0.9%
2	Yancoal	0.4%
3	Sydney Airport	0.4%
4	Commsteel	0.3%
5	Global Switch	0.2%
6	Port Waratah Coal Services	0.2%
7	Orica Botany Industrial Park	0.2%
8	Glencore Coal Assets Australia Pty Limited	0.2%
9	Australian Defence Garden Island	0.1%
10	Orica Eastern Nitrogen Kooragang	0.1%
Total		2.9%

1. % of total NUOS revenue year ended 30 June 2019

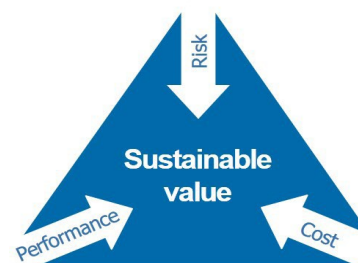
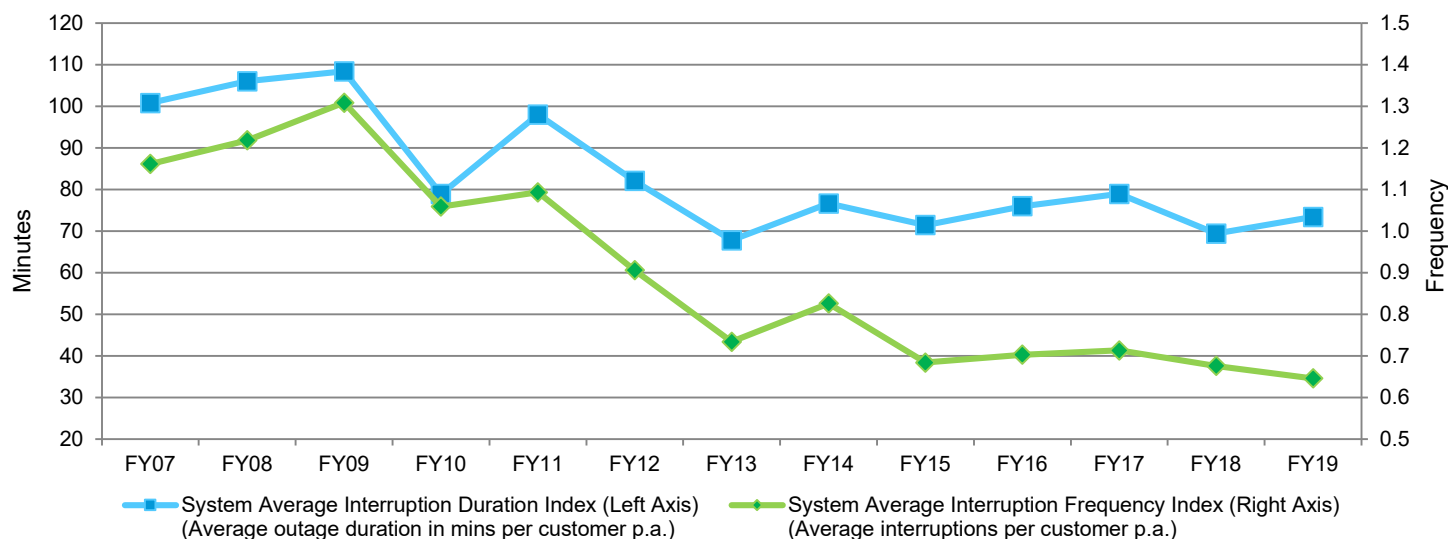
Asset management

Ausgrid has adopted a 'whole of life' approach. Effective asset management ensures the appropriate balance between cost, risk and performance for the safe and efficient delivery of a reliable and sustainable electricity network

Ausgrid achieves this balance with:

- An asset management framework, including asset policies, asset standards and plans
- A single investment governance framework, with a consistent risk prioritisation methodology
- Extensive monitoring and reporting of network performance
- Asset maintenance and replacement programs to support network safety, reliability and performance and ensure compliance with obligations
- Delivery of improvement initiatives to achieve operating efficiencies

Ausgrid Reliability Performance



Effective asset management has allowed Ausgrid to significantly improve its reliability performance track record

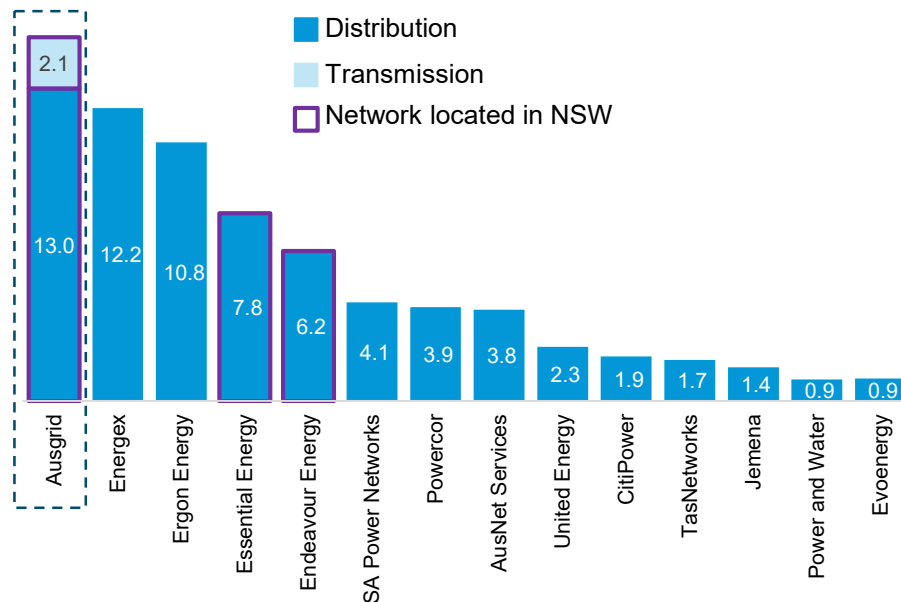
Peer RAB and customer base comparison

Largest distribution network in the NEM by RAB, end customer numbers, electricity delivered and maximum demand

- Ausgrid's network has distributed electricity within NSW for over 100 years
- 1.75 million end customers² and 25,424 GWh of electricity transported in FY19
- Total RAB of A\$15.7 billion as at 30 June 2019 per Final Determination

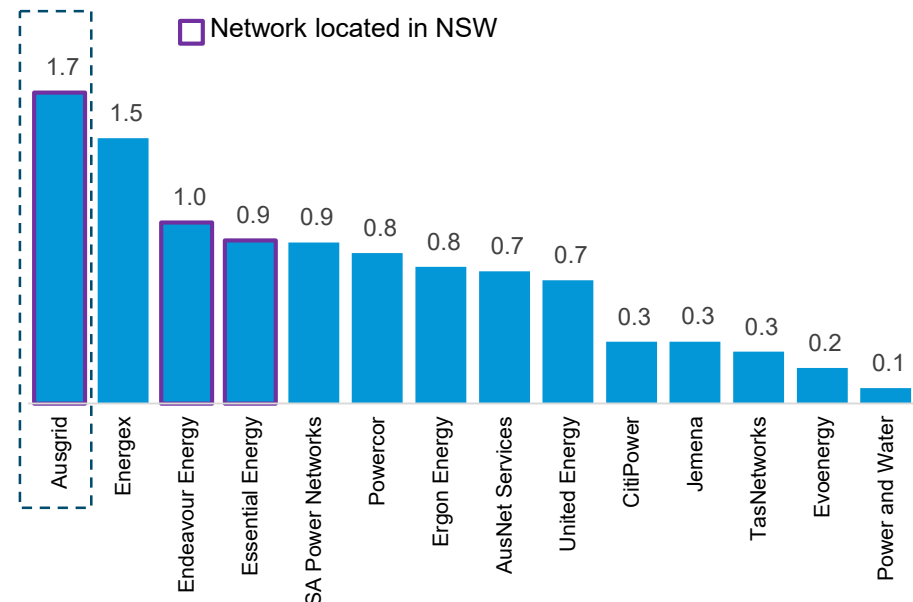
RAB of distribution networks in the NEM in FY18 (A\$bn)¹

Largest RAB of any other network in the NEM



Customers of distribution networks in the NEM in FY18 (m)³

More customers than any other network in the NEM



Source: AER State of the Energy Market Report (2018) (data gathered from AER regulatory determinations and benchmarking Regulatory Information Notices) as at 17 December 2018

1. RAB as at June 2018 (December 2018 for Victorian businesses)
2. Represents total residential, government, commercial and industrial customers
3. As at June 2018

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Strategic priorities

Our purpose is to connect communities and empower lives

1 Focusing on safety, leadership and people

- Promotion and maintenance of a strong safety culture and safety performance
- Building a strong executive leadership group with commercial capabilities to drive transformation

4 Delivering on customer and stakeholder expectations

- Balancing customer affordability focus with improving customer experience
- Preparing the grid for a lower carbon future and taking a customer centric approach to investment planning

2 Optimising the business environment

- Focus on cost effectively maintaining current reliability levels

5 Technological investment

- Delivering incremental value to Ausgrid's business and end customers by improving customer service, cyber security, information, communication and technology services

3 Driving operational excellence through Ausgrid's Transformation Program

- Improving operating efficiencies and right-sizing the workforce, so Ausgrid can continue providing end customers with safe, reliable and affordable electricity supply while improving profitability

6 Pursuing modest growth opportunities in unregulated businesses

- Pursuing growth opportunities in Ausgrid's unregulated business and developing innovative energy solution offerings, such as smart metering services, electrical infrastructure and telecommunications infrastructure

Transformation program

The Transformation Program is a comprehensive program to deliver first quartile cost efficiencies while improving customer and safety outcomes



Objectives

- Change the legacy ways of working and thinking across Ausgrid to unleash the potential of the workforce and empower within parameters of controlled risk
- Right size the workforce and shape the organisation to be a flatter organisation with the frontline closer to the CEO
- Pursue cost efficiencies across all non-labour categories balanced with the sustainability procurement objectives including total cost of ownership, environmental, social and government factors
- Embed a culture of continuous improvement where cost efficiencies can be delivered sustainably and consistent with an end-to-end value chain perspective



Progress

- New EA in place supporting a performance-based culture
- The Transformation Program has already reduced SCS opex by \$148 million and there is a plan to deliver another \$56 million by FY24
- Progressive reduction in operating expenditure since FY15
- In FY20 Ausgrid's Transformation Program will result in a further reduction of 360 FTE
- Transformation implementation well under way



Outcomes

- New customer centric organisational structure in place
- Savings have been agreed and targets 'locked in' to budgets
- The Transformation Program will be phased to consciously balance workforce reductions with employee engagement and technology implementation

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2019-24 Final Determination – revenue

The AER determines the maximum revenues that Ausgrid can earn through a theoretical economic building-block methodology, prior to the commencement of each regulatory period that resets every 5 years

(\$m, nominal)	FY20	FY21	FY22	FY23	FY24	Total
Return on capital	897	910	917	918	917	4,559
Regulatory depreciation	103	134	164	193	193	787
Operating expenditure	474	486	499	513	528	2,500
Efficiency carryover	19	20	20	21	21	101
Remittal decision	(329)	0	0	0	0	(329)
Corporate income tax	28	23	26	29	26	132
Building block revenue	1,193	1,573	1,627	1,674	1,685	7,752
Smoothed revenue	1,506	1,517	1,537	1,559	1,585	7,704

Building Blocks	Description
Return on capital	A return (nominal, post-tax) on the assets deployed in the provision of regulated services, with this return being commensurate with the efficient financing costs of a benchmark efficient entity with a similar degree of risk
Regulatory depreciation	Recoupment of the straight-line depreciation of the network assets, and calculated by reference to the value of assets used for the delivery of regulated services and their economic life
Operating expenditure	The costs of operating and maintaining the distribution network
Efficiency carryover (incentive schemes and other adjustments)	For the FY19-24 period there is a CESS revenue reward due to capex underspend over FY14-19. There is also a negative revenue adjustments relating to over-recovered revenue in the FY15-19 period In the FY24-29 period Ausgrid will also be able to earn a revenue reward through the EBSS if it underspends opex over FY19-24
Corporate income tax	An amount that reflects the corporate income tax obligations of a benchmark network service provider

Financial summary

Statement of profit or loss and other comprehensive income

nom. \$ million	FY18	FY19
Revenue		
SCS	2,327	2,299
ACS	168	154
Unregulated	117	142
Interest income	4	3
Total revenue	2,616	2,598
Expenses		
SCS	(465)	(446)
ACS	(76)	(88)
Unregulated	(87)	(107)
Pass-through costs	(435)	(355)
Unregulated energy costs	(1)	-
Total operating expenses	(1064)	(996)
EBITDA	1,552	1602
Depreciation and amortisation	(543)	(593)
Finance costs	(482)	(478)
Impairment expense	-	(348)
Loss on disposal of PP&E	(10)	(21)
Profit for the year	517	162

Key highlights

- Revenue decreased mainly due to a reduction in energy consumption for low voltage non-residential customer.
- Operating expenses decreased mainly due to lower transmission costs from TransGrid, lower consultancy and contractor expenditure, partially offset by higher IT maintenance costs and higher employee benefits costs.
- Employee benefit costs increased mainly due to higher reform costs primarily driven by the restructuring provision reassessments and the increase in long service leave costs as a result of a reduction in the discount rate from 4.00% at 30 June 2018 to 2.75% at 30 June 2019.
- EBITDA includes reform costs of \$35 million in FY18 and \$77 million in FY19.
- In FY19 an impairment of \$348 million was recognised against the goodwill allocated to the NSP. The NSP impairment resulted mainly from the AER Final Determination.

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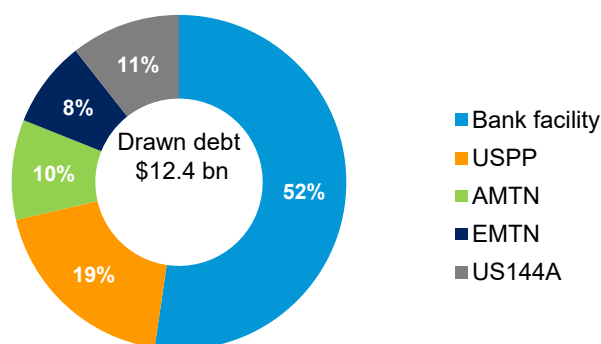
Funding

Ausgrid has a \$12.4 billion debt portfolio, is committed to prudent capital management and seeks to minimise its cost of funding within defined risk parameters

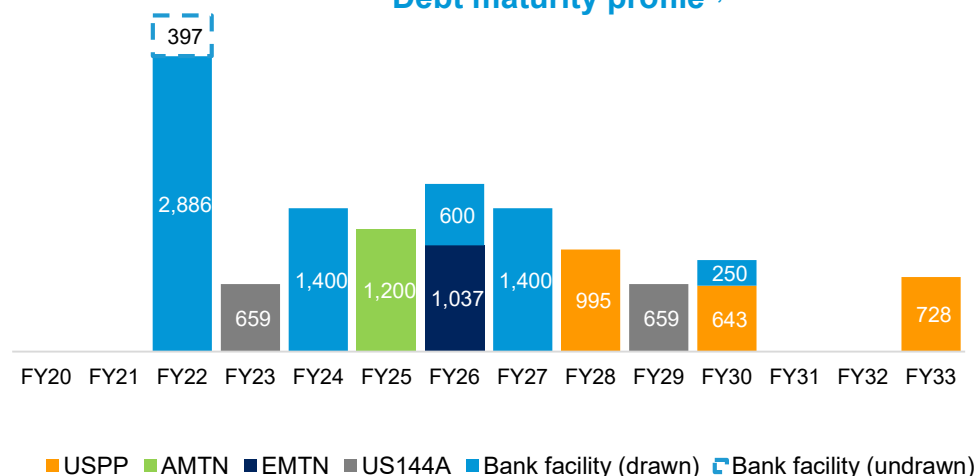
Summary

- Ausgrid is rated Baa1 by Moody's (implied baa2 on a standalone basis) and BBB (bbb standalone) by S&P (both stable). Shareholders and management are committed to maintaining this credit profile
- Management's key focus to date has been to establish a global capital markets presence in order to achieve diversity of funding sources and tenors, with a view to managing refinancing risk in a prudent manner
- All foreign currency debt is hedged to Australian dollar at the time of issue
- Ausgrid interest rate hedging program mimics the AER's approach to setting regulatory cost of debt and cost of equity allowances, thereby aligning Ausgrid's financing base rates with the equivalent base rates used in the revenue calculation

Debt funding sources (as at 31 July 2019)



Debt maturity profile^{1,2}

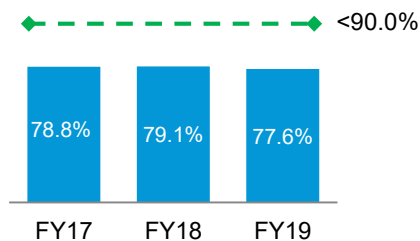


1. Foreign currency debt is hedged for its term via cross currency swaps to AUD; debt amount shown at relevant hedged exchange rate
2. Weighted average debt maturity of the drawn debt portfolio as at 31 July 2019 equals 6.0 years

Credit metrics

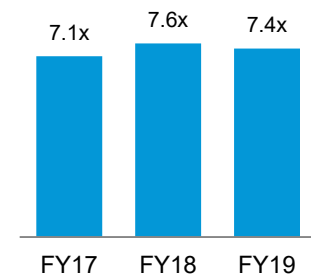
Leverage

Net debt¹ / RAB



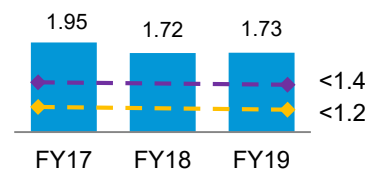
Bank covenant

Net debt¹ / EBITDA²



Cashflows

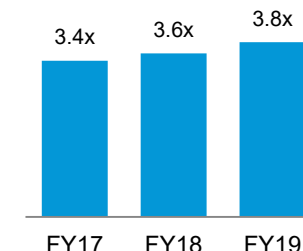
CFCR³



Lock-up

Default

EBITDA / Interest



Credit rating

- Ausgrid is committed to maintain its baseline credit rating assessment of baa2 / bbb
 - Consistent with its Treasury Policy and Partnership Deeds
- The credit ratings are a core part of Ausgrid's capital management strategy

Refer to Appendix A for details on Ausgrid's credit rating and distribution policies

1. Net debt presented at face value
 2. FY17 based on pro-forma EBITDA; FY19 EBITDA normalised by adding back goodwill impairment
 3. Cashflows normalised by adding back reform costs

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Agenda



- 1 About Ausgrid**
- 2 Operations and performance**
- 3 Strategic priorities**
- 4 Regulation and financial performance**
- 5 Funding and capital management**

A Supporting materials

Overview of the partnerships' board

Independent Chairman



Dr Helen Nugent AO

- Professional company director with 35 years experience in the energy, resources and financial services sectors
- Non-Executive Director of IAG and Chairman of Australian Rail Track Corporation and the National Disability Insurance Agency

Non-executive directors



Jason Peasley



- More than 20 years' experience working across infrastructure investments globally
- Manages infrastructure investment portfolio, and is on the leadership team for AustralianSuper's investments

Hugh Gleeson



- More than 30 years' experience in the utility sector at senior executive and governance levels
- CEO of United Energy and Multinet Gas for 12 years

Wendy Thorpe



- More than 30 years' experience in financial services, education, health and not-for-profit
- Chair of On-Line Education Services, Non-Executive Director of Tower, Epworth Healthcare, Very Special Kids and former director of AMP Bank



Michael Hanna

- Head of Infrastructure (Australia) at IFM Investors
- More than 20 years' experience related to major infrastructure projects



Michael Byrne

- Director, MD & CEO of Toll Holdings
- More than 30 years of executive experience in the logistics, supply chain, retail and property sectors



Ashley Barker

- Executive Director at IFM Investors
- 17 years' experience across investment banking, private equity and infrastructure funds management



Belinda Gibson

- Over 30 years' of financial markets experience
- Partner at Mallesons Stephen Jaques for 20 years and deputy chairperson of ASIC 2007-2013



Laura Reed

- Over 20 years' experience in the energy infrastructure sector
- CEO and MD of Spark Infrastructure from 2008-2012

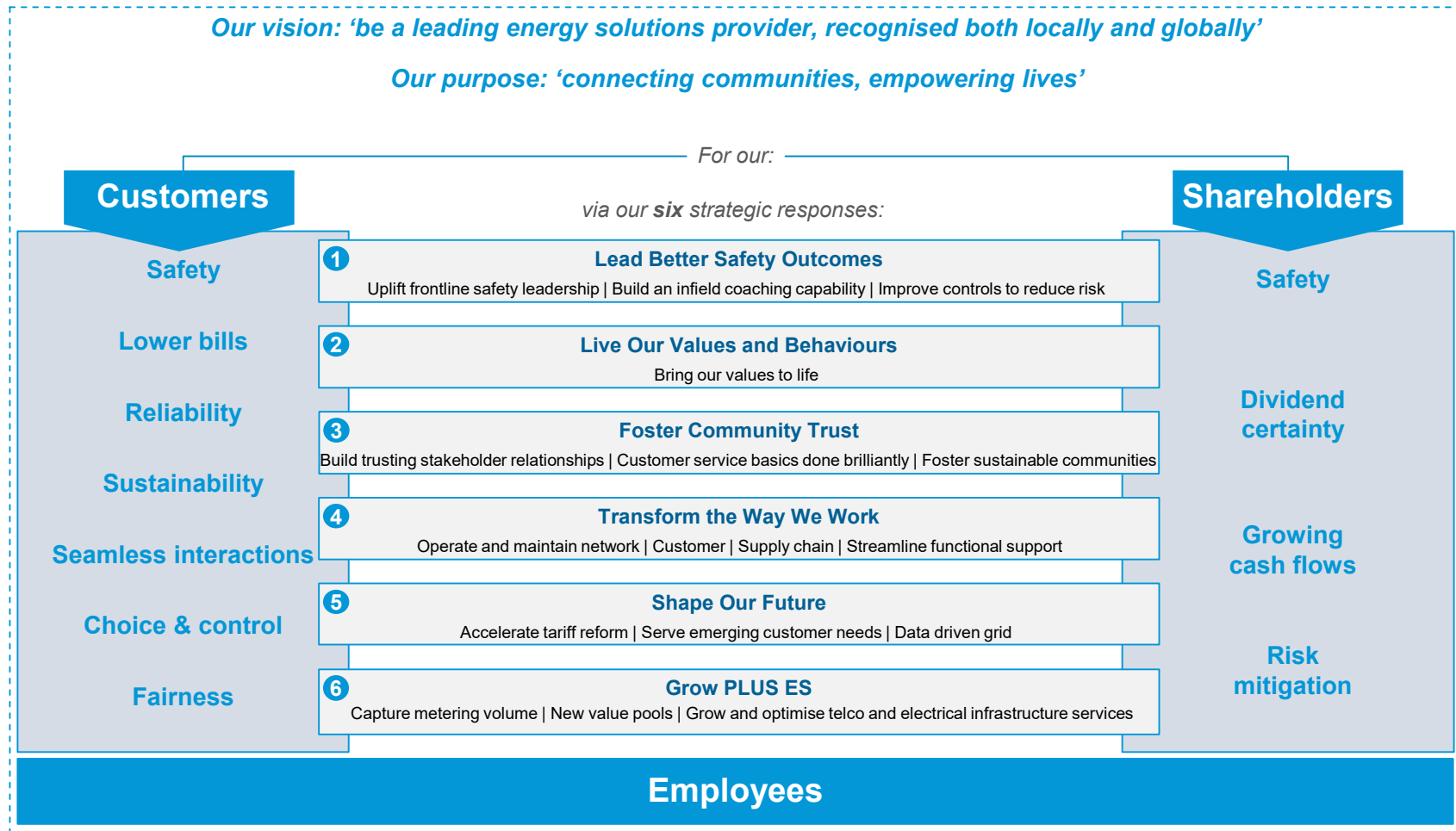


Robert Wright

- Over 35 years' financial management experience across a range of industries (e.g. retail, food processing and fast moving consumer goods)
- Recent former Directorships include APA Group from 2000-2015

Strategic plan

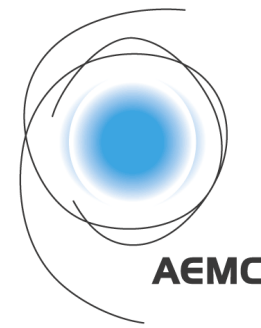
Our strategic plan to achieve our vision and deliver for our customers, shareholders, and employees can be distilled into six strategic responses



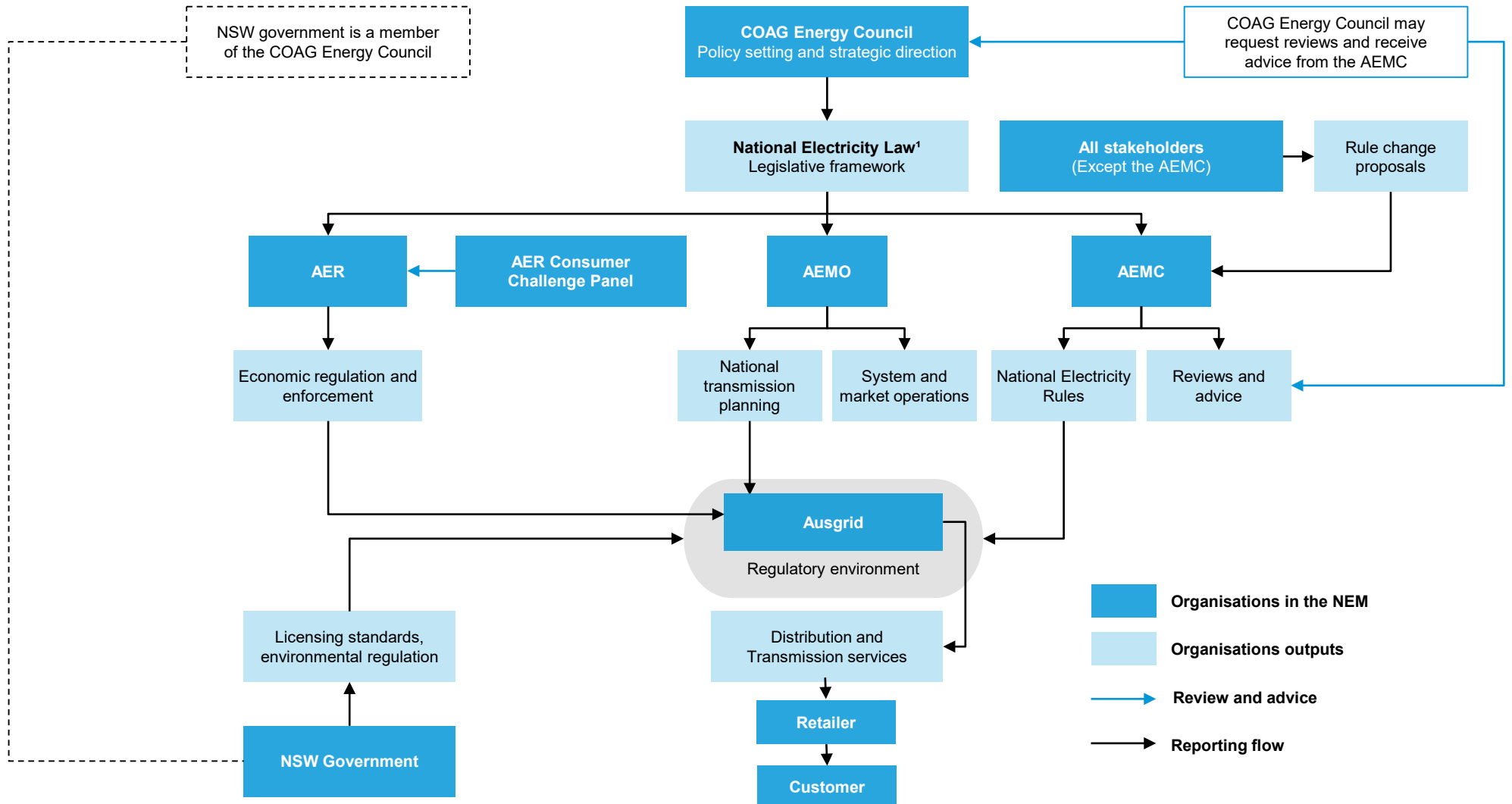
Australian electricity market regulatory environment

Established national regulatory regime governing the operational framework and revenue determination

- Ausgrid's electricity distribution and transmission network is economically regulated by the AER – an independent statutory body that is required to follow a process set out in the NER
- The NER is set by a separate independent body (the AEMC), and any changes to the Rules governing the regime can only be made if the change is in line with an explicit Rule-making test, and follows a public consultation process
- A key component of the regulatory environment is the assessment of a revenue requirement for a network operator through a regulatory determination process
- The AER is a mature regulator that has established a highly collaborative process for making regulatory determinations, which creates transparency for market participants
- AER determinations are administrative decisions under Australian law and may therefore be subject to judicial review overseen by the Federal Court

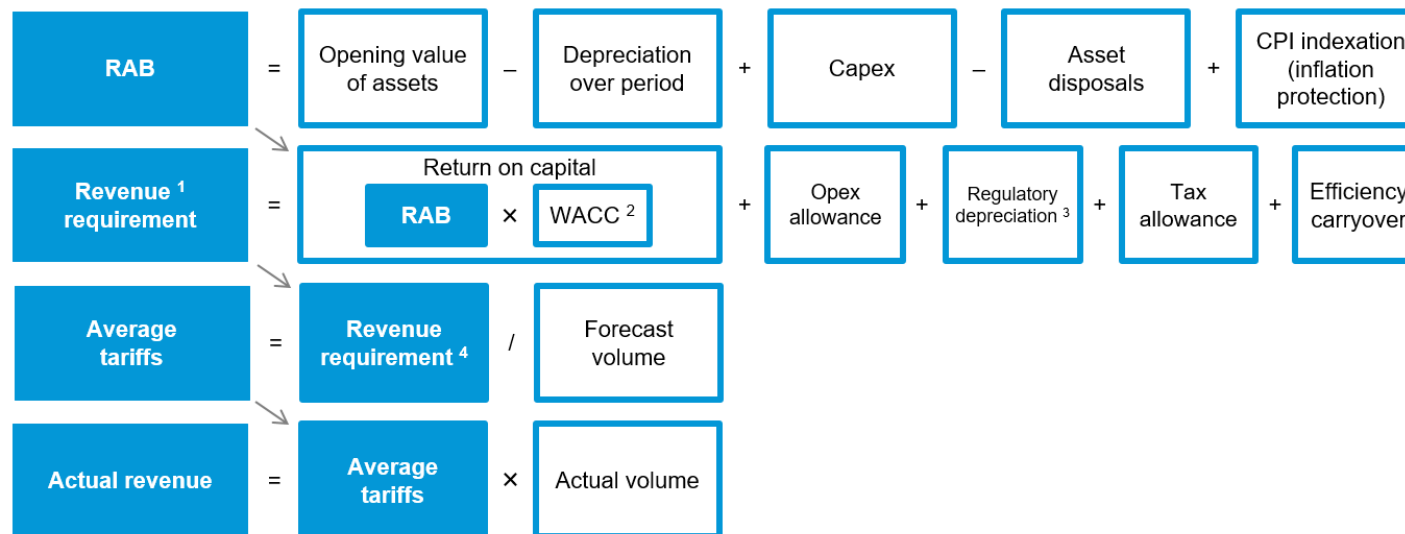


Regulatory framework



Regulatory regime

- AER determines Ausgrid's annual expected revenue requirement based on a building block methodology – this is set at the commencement of each regulatory period (typically 5 years), providing transparency and revenue certainty throughout the period
- Customer tariffs are set annually based on an AER agreed methodology (i.e. a Tariff Structure Statement approved as part of the revenue reset process) during each regulatory period to allow Ausgrid to recover its revenue requirement
- Under the revenue cap form of regulation, tariffs are adjusted to account for over/under recovery of revenue requirement in previous years, whilst under a price cap mechanism the price is limited for the applicable service



Annual price setting process sets tariffs based on revenue requirement and provides:

- 1) **Inflation protection** – revenues are adjusted for observed CPI⁵ on a lagged basis
- 2) **Volume protection** – adjustments for differences in forecast and actual volumes (revenue cap)
- 3) **Interest rate protection** – update to cost of debt in regulatory WACC to incorporate changes in interest rates

1. The revenue requirement could include a reduction from the application of the shared assets guideline (if a materiality threshold is met)
 2. Weighted average cost of capital
 3. Equal to depreciation over period less CPI indexation

4. The financial outcome for the application of the STPIS scheme will be added to the revenue requirement in deriving an average tariff
 5. Consumer Price Index (Sydney all groups) published by the Australian Bureau of Statistics

Regulatory key value drivers

The regulatory framework is incentive-based, meaning that the regulator allows Ausgrid to outperform the regulated rate of return by pursuing desirable objectives

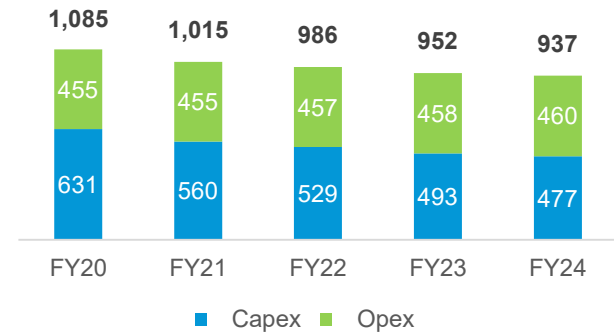
Value Driver	Description	Outperformance potential
Opex	- AER determines an efficient level of opex by reference to peer benchmarking and a range of other factors - Provided a business is 'efficient', AER typically adopts a 'base-step-trend' approach in setting the opex allowance, which relies on escalation of actual opex in a base year - The EBSS which rewards opex underspend and penalises opex overspend against the regulatory allowance in a future period	- The EBSS entitles Ausgrid to retain approximately 30% of any opex underspend against the opex allowance - EBSS will apply in the FY20-24 regulatory period
Capex	- AER determines an efficient level of capex, typically based on a bottom-up assessment and trend analysis of historical expenditure - The CESS rewards capex underspend and penalises capex overspend against the regulatory allowance - AER can challenge any capex above the capex allowance on the basis it is imprudent or inefficient	- The CESS entitles Ausgrid to retain approximately 30% of any underspend against the capex allowance - Underspend also removes the risk of the AER challenging the prudence/efficiency of any capex if there is an aggregate capex overspend across the regulatory period
Debt pricing	In determining regulatory WACC, the AER assumes a cost of debt by reference to a benchmark basket comprised of 2/3 efficient entities with a BBB+ rating and 1/3 efficient entities with an A rating issuing 10 year debt	- Regulated returns are improved by achieving borrowing costs below the AER benchmark – for example by: - Targeting a weighted average debt tenor shorter than the benchmark - Active treasury management to achieve more attractive pricing than the benchmark - Hedging current debt book at current rates (whereas the AER uses a 10-year trailing average approach which includes higher historical debt costs)
Gearing	In determining regulatory WACC, the AER consistently assumes a gearing ratio of 60% for all electricity utilities	Regulated returns are improved by targeting higher gearing than the AER assumption of 60%
STPIS	AER offers incentive payments / penalties based on performance against reliability targets relating to length and frequency of outages and telephone response times	Exceeding performance and reliability targets will result in additional incentive payments to Ausgrid
Income tax	AER assumes Ausgrid pays a corporate tax rate of 30% in determining the regulatory tax allowance	Ausgrid's regulatory tax allowance will exceed actual tax paid where Ausgrid's effective tax rate is less than 30%

2019-24 Final Determination – detailed components

Rate of Return (% nominal)	FY20	FY21	FY22	FY23	FY24	Average
Return on equity (nominal post-tax)	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%
Return on debt (nominal pre-tax)	5.74%	5.55%	5.36%	5.17%	4.98%	5.36%
Gearing	60%	60%	60%	60%	60%	60%
Nominal vanilla WACC	5.72%	5.61%	5.49%	5.38%	5.27%	5.49%

FY20 rates confirmed, outer years return on debt will be updated based on prevailing market data

Capex and opex (\$m, real FY19)¹



Return on equity components	FY20-24
Nominal risk free rate	2.04%
Market Risk Premium	6.10%
Equity Beta	0.6
Return on Equity	5.70%

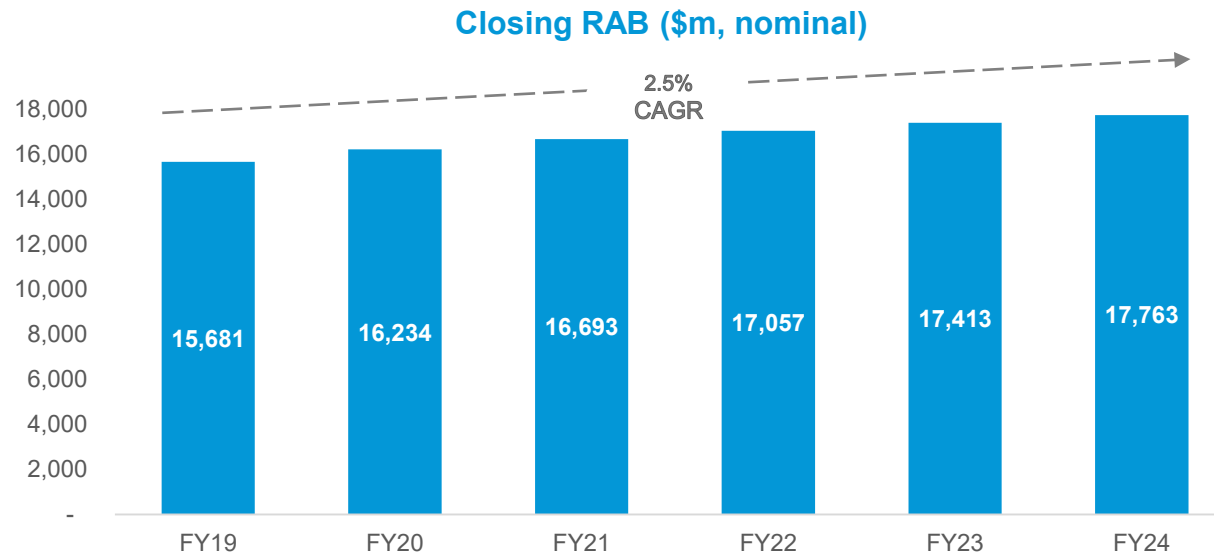
Imputation Credits	FY20-24
Distribution Rate	90%
Utilisation Rate	0.65
Gamma²	0.585

1. Capex excludes capital contributions, opex excludes debt raising costs
2. Gamma represents the value of imputation tax credits received by shareholders with dividends which offset tax liabilities

2019-24 Final Determination – projected RAB

The RAB is projected to grow to \$17,763 million by 30 June 2024 under the Final Determination

(\$m, nominal)	FY20	FY21	FY22	FY23	FY24
Opening RAB	15,681	16,234	16,693	17,057	17,413
Capex nominal	656	593	528	549	543
Straight line depreciation	(483)	(528)	(569)	(607)	(615)
Indexation	380	394	405	414	422
Closing RAB	16,234	16,693	17,057	17,413	17,763

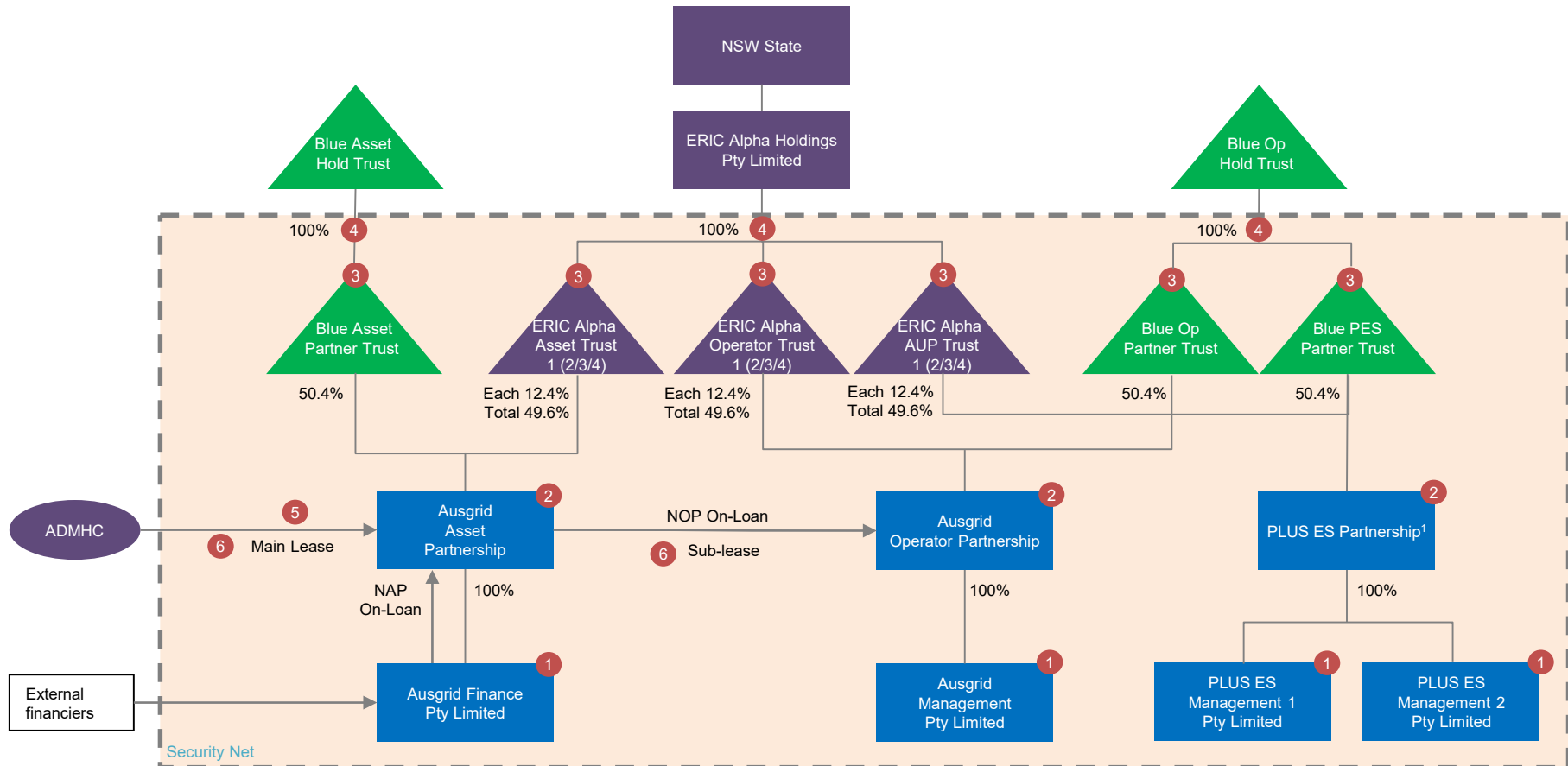


2014-19 Determination vs 2019-24 Determination

Comparison of key assumptions

Item	2014-19	2019-24	Comments
Regulatory CPI	2.38%	2.42%	Difference driven by the AER method (geometric average of two years (FY20-21) of forecast CPI from RBA and eight years (FY22-29) assumed at 2.5%)
Tax allowance			
Depreciation method for tax calculation	Straight Line	Diminishing Value	Final outcome of Review of Regulatory Tax Approach changed tax depreciation calculation from straight-line method to diminishing value method causing lower tax allowance over time
Gamma	0.400	0.585	Increase driven by shift from 2013 rate of return guideline to 2018 rate of return instrument
Cost of equity allowance	7.10%	5.70%	Difference driven by shift from 2013 rate of return guideline to the 2018 rate of return instrument as presented by component below
Risk free rate	2.55%	2.04%	Difference driven by updated Australia sovereign yield curve
Equity beta	0.7	0.6	Lower cost of equity allowed in the WACC
Market risk premium	6.5%	6.1%	Lower cost of equity allowed in the WACC
Equity funding	40%	40%	Unchanged
Cost of debt allowance	5.93% - 6.51%	4.98% - 5.74%	Difference driven by updated debt forward yield curves and changed margin assumption
Debt margin assumption	BBB	2/3 BBB + 1/3 A	Lower cost of debt allowed in the WACC

Security structure



Security includes:

- 1) General security agreement in respect of all of the assets and undertakings of Ausgrid Finance Pty Limited and Ausgrid Management
- 2) General security agreement in respect of all the assets and undertakings of Ausgrid Asset Partnership, the Ausgrid Operator Partnership and the PLUS ES Partnership
- 3) General security agreements from each partner in the Ausgrid Asset Partnership, the Ausgrid Operator Partnership and the PLUS ES Partnership
- 4) Specific security agreement over the shares and units in each partner in the Ausgrid Asset Partnership, the Ausgrid Operator Partnership and the PLUS ES Partnership
- 5) Mortgage of the Network Lease
- 6) Tripartite deed in respect of the Network Lease (between ADMHC and AAP) and sub-lease (between AAP and AOP) arrangements

Summary borrowing structure

Security structure

All senior secured creditors (including noteholders) benefit from a security package comprising:

- Security over the present and after acquired property of the Ausgrid Asset Partnership, Ausgrid Operating Partnership and PLUS ES Partnership
- Security over the present and after acquired property of Ausgrid Finance Pty Limited, Ausgrid Management Pty Limited, PLUS ES Management 1 Pty Limited and PLUS ES Management 2 Pty Limited
- Security over the shares and units of the AAP partners and AOP partners and the PLUS ES Partners held by each of the holding entities
- Mortgage over Ausgrid's interest in the Main Lease from the NSW Government

Tripartite Deed

Senior creditors have additional protection through a Tripartite Deed entered into by Ausgrid, the Ausgrid Asset Partnership, the Ausgrid Operator Partnership, the Security Trustee and the NSW Government, which provides:

- the Lessor¹ consents to the creation and existence of the Security (including the mortgage of the Network Lease granted by the Ausgrid Asset Partnership)
- the Lessor agrees that neither the creation of the Security nor the exercise of any powers under it is of itself a breach of, or constitutes a 'Lessor Termination Event' under, the Network Lease or entitles the Lessor to exercise any termination right under the Network Lease
- the Lessor agrees that an Enforcing Party² may, in the exercise of its powers under any Security, assign and transfer the Network Lease in accordance with its terms, provided that the Enforcing Party does so in compliance with the requirements in the Network Lease
- the Lessor grants certain cure rights to the Security Trustee in respect of 'Lessor Termination Events' under and as defined in the Network Lease

1. ADMHC (ABN 67 505 337 385), under the Network Lease

2. Such as the Security Trustee or a receiver

Ausgrid credit rating and distribution considerations

Ausgrid's credit rating considerations

- The Board has a strong commitment to maintain the current credit profile
- Ausgrid's Treasury Policy and a requirement under the Partnership Deeds is that Ausgrid will maintain a minimum bbb/baa2 baseline credit assessment. Ausgrid would be in breach of the Partnership Deeds and its Treasury policies if it actively sought to reduce the rating e.g. by increasing leverage. Further, the Partnership Deeds do not allow Ausgrid to borrow to pay distributions where the borrowing would cause the baseline credit assessment to fall below bbb/baa2
- The Moody's rating currently includes a one notch uplift due to the implied support of all three shareholders, i.e. not just the NSW Government
- Previously the AER assumes that a benchmark efficient entity, for the purposes of regulation, has a BBB+ (Baa1) credit rating when calculating cost of debt allowances. In 2019 the regulator changed the methodology to take into account 1/3 of A rated debt instruments and 2/3 of BBB rated debt instruments. The current credit profile is consistent with the AER's regulatory approach

Ausgrid's distribution considerations

- Under the Partnership Deeds, each Partnership must distribute at least 85% of its surplus cash within 30 days of the end of each quarter - so long as paying this distribution will not cause the baseline credit assessment to fall below investment grade. A quarterly distribution of no less than 85% of surplus cash in the quarter is to be distributed to the Partners, unless the directors of the Ausgrid Group make a unanimous determination to distribute a lesser amount in respect of a particular quarter
- Surplus Cash of a Partnership is calculated as the operating cash flows of the relevant Partnership for the quarter; *less* growth capital expenditure for the quarter; *less* maintenance capital expenditure for the quarter; *less* interest and debt repayments for the quarter (including any voluntary prepayments); *plus* the proceeds of debt drawdowns or refinancings undertaken in the quarter; *plus* proceeds from the sale of any assets in the quarter

Hedging strategy

Notional swap profile

				RCP 2019-24					RCP 2025-30				
	Debt/RAB	Swap Tenor	Execution Year	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
20% D/RAB	10%	5	2019										
	10%	5	2019										
60% D/RAB 10 year trailing average	6.0%	1	2016										
	6.0%	2	2016										
	6.0%	3	2016										
	6.0%	4	2016										
	6.0%	5	2016										
	6.0%	6	2016										
	6.0%	7	2016										
	6.0%	8	2016-17										
	6.0%	9	2017										
	6.0%	10	2018										

**60% Debt/RAB hedged to 10 year trailing average profile with
20% Debt/RAB hedged to next regulatory reset in June 2024**

Overview

The interest hedging strategy can be broken down into:

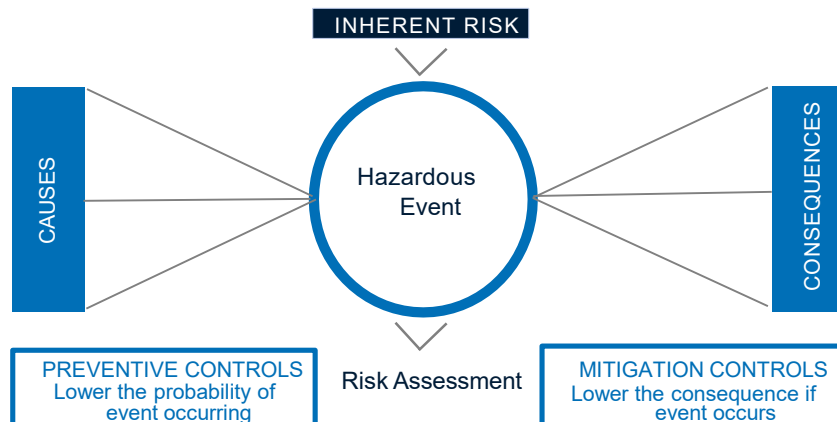
- 60% debt to RAB hedged to 10 year trailing average cost of debt¹
 - Ausgrid has amortising swap profile that matches the tenor and profile of the existing regulatory debt allowance
 - Further swaps will be executed to match the timing and volume of the annual 10% cost of debt resets by the AER
- 20% debt to RAB (equity portion) hedged to end of current RCP

1. The AER currently sets the allowed return on debt by implicitly assuming that at the start of FY15 Ausgrid issued 100% of its debt at the rate of 6.51% (the yield on 10 year BBB+ rated bonds 28 February – 30 June 2014) and then 10% of the notional debt that matures each year and is replaced with debt issued at a rate equal to prevailing rates over the observation period during previous calendar year

Risk management

Formalised risk management framework

- Risk management cycle consistent with ISO 3100:2018
- Incorporates use of Bow-Tie methodology as part of the risk assessment process
- Network risk management includes the identification of network failure modes and their criticality as a core element
- Provides visibility of any uncertainties to the achievement of plans, priorities and the ability to work to Ausgrid's corporate values
- Provides assurance to management that the business critical controls in place are designed and operating effectively
- Regular reporting including emerging risks, key risk indicator trends and risk treatment action status



Risk appetite statement

12 Risk Themes – assessed against the following Risk Appetite Definitions

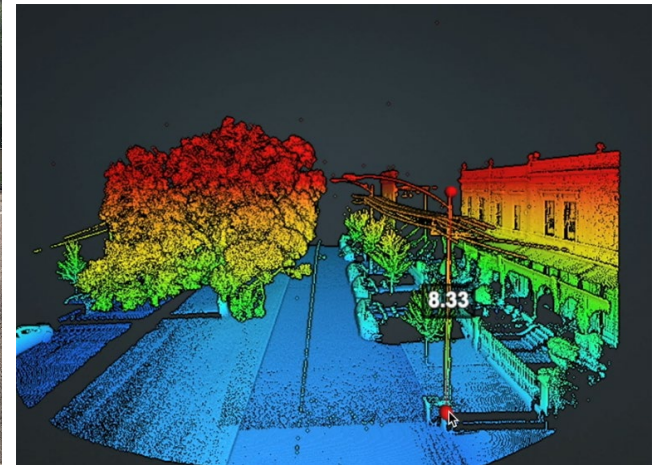
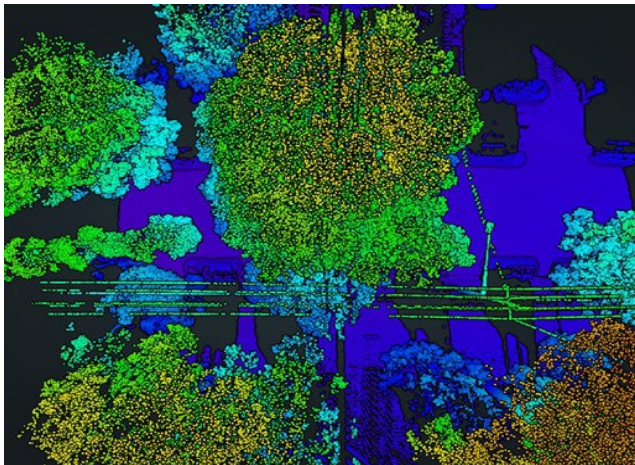
RISK APPETITE DEFINITIONS	
Risk Adverse	Avoid risk taking wherever possible
Risk Sensitive	Limited risk taking
Risk Neutral	Calculated risk taking
Risk Seeking	Engage with risk pursue opportunities
RISK THEME	
1. People, Health & Safety	Risk Adverse
2. Customer	Risk Sensitive
3. Reputation	Risk Sensitive
4. Cyber and Physical Security	Risk Adverse
5. Environment	Risk Sensitive
6. Regulatory & Compliance	Risk Sensitive
7. People – Conduct	Risk Adverse
8. People – Workforce & Culture	Risk Sensitive
9. Network Operations	Risk Sensitive
10. Finance	Risk Sensitive
11. Information and Communication Technology (ICT) – Operations	Risk Neutral
12. New Business	Risk Seeking

Limit of indemnity

- General liability \$860 million per occurrence
- Bushfire liability \$860 million per occurrence
- Full failure to supply \$180 million
- Professional indemnity \$50 million

Bushfire risk management

- Vegetation management including minimum vegetation clearance guidelines whilst balancing broader obligations of environmental sustainability
- LiDAR (Light Detection and Ranging) scanning for vegetation clearance monitoring annually
- Electrical asset inspection and maintenance regime (including high definition photography) in fire prone areas
- Ausgrid compliant with recommendations emanating from Blue Mountains Bushfires 2013 Coronial Inquiry
- Exploring advanced predictive analytics to enhance data use to better inform processes for the future



Future trends in the electricity value chain

