



**Ausgrid Group
Annual report
30 June 2022**



Ausgrid Group

Annual report 30 June 2022

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	Notes	2022 \$M	2021 \$M
Revenue	3	2,397	2,330
Distribution of energy costs	4(a)	(436)	(425)
Depreciation and amortisation expense	4(c)	(641)	(678)
Finance costs	4(d)	(443)	(446)
Employee benefits expense	4(b)	(251)	(297)
Other expenses	4(b)	(238)	(244)
Other income		45	-
Gain/(loss) on disposal of property, plant and equipment		247	(6)
Profit before income tax		680	234
Income tax expense		-	-
Profit for the year		680	234
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Changes in the fair value of cash flow hedges		1,122	170
Reclassification to profit or loss		243	245
Income tax relating to these items	5	(407)	(124)
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Defined benefit superannuation actuarial gains	18(c)	-	24
Income tax relating to these items	5	-	(8)
Other comprehensive income for the year		958	307
Total comprehensive income for the year		1,638	541
Profit for the year attributable to Partners:			
Ausgrid Operator Partnership (AOP)		156	168
Ausgrid Asset Partnership (AAP)		488	60
PLUS ES Partnership (PLUS ES)		36	6
Profit for the year		680	234
Total comprehensive income for the year attributable to Partners:			
AOP		156	184
AAP		1,438	351
PLUS ES		44	6
Total comprehensive income for the year		1,638	541

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

	Notes	2022 \$M	2021 \$M
Current assets			
Cash and cash equivalents		432	249
Trade and other receivables	7	281	94
Contract assets	7	290	277
Prepayments		32	34
Inventories		22	22
Assets classified as held for sale	8	5	5
Derivative financial assets	15	68	-
Total current assets		1,130	681
Non-current assets			
Property, plant and equipment	9	17,013	16,931
Intangible assets	10	3,529	3,582
Derivative financial assets	15	1,019	510
Deferred tax assets	6	-	173
Other receivables	7	2	3
Defined benefit plan asset	18	1	-
Total non-current assets		21,564	21,199
Total assets		22,694	21,880
Current liabilities			
Trade and other payables	11	338	302
Contract liabilities	14	10	8
Borrowings	12	727	1,364
Provisions	13	301	275
Deferred government grants		2	2
Other liabilities	14	6	5
Total current liabilities		1,384	1,956
Non-current liabilities			
Contract liabilities	14	67	64
Borrowings	12	11,051	11,237
Derivative financial liabilities	15	372	632
Provisions	13	64	105
Deferred government grants		36	38
Deferred tax liabilities	6	234	-
Total non-current liabilities		11,824	12,076
Total liabilities		13,208	14,032
Net assets		9,486	7,848

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 2022
(continued)

	Notes	2022 \$M	2021 \$M
Equity attributable to Partners of AOP			
Contributed equity	16	1,716	1,716
Reserves		23	23
Retained earnings	17	62	(94)
Total equity attributable to Partners of AOP		1,801	1,645
 Equity attributable to Partners of AAP			
Contributed equity	16	7,021	7,021
Reserves		523	(427)
Retained earnings	17	(64)	(552)
Total equity attributable to Partners of AAP		7,480	6,042
 Equity attributable to Partners of PLUS ES			
Contributed equity	16	183	183
Reserves		8	-
Retained earnings	17	14	(22)
Total equity attributable to Partners of PLUS ES		205	161
 Total equity attributable to Partners of the Ausgrid Group		9,486	7,848

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 2022

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

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

Ausgrid Group
Consolidated statement of changes in equity
For the year ended 30 June 2022
(continued)

	Contributed equity \$M	Cash flow hedge reserve \$M	Defined benefit superannuation reserve \$M	Retained earnings \$M	Total \$M
Balance at 1 July 2020	8,920	(718)	7	(902)	7,307
Profit for the year	-	-	-	234	234
Other comprehensive income					
Changes in cash flow hedges - AAP and PLUS ES	-	291	-	-	291
Defined benefit superannuation actuarial gains - AOP	-	-	16	-	16
Total other comprehensive income	-	291	16	-	307
Total comprehensive income for the year	-	291	16	234	541
Balance at 30 June 2021	8,920	(427)	23	(668)	7,848
Closing balance of equity attributable to					
AOP	1,716	-	23	(94)	1,645
AAP	7,021	(427)	-	(552)	6,042
PLUS ES	183	-	-	(22)	161
Balance at 30 June 2021	8,920	(427)	23	(668)	7,848

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 2022

	Notes	2022 \$M	2021 \$M
Cash flows from operating activities			
Receipts from customers		2,270	2,214
Payments to suppliers and employees		(880)	(970)
Interest received		1	1
Interest paid		(423)	(443)
Net cash inflow from operating activities	25	<u>968</u>	<u>802</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(600)	(498)
Payments for intangible assets		(44)	(39)
Proceeds from sale of property, plant and equipment		194	60
Net cash outflow from investing activities		<u>(450)</u>	<u>(477)</u>
Cash flows from financing activities			
Proceeds from borrowings		845	1,455
Repayment of borrowings		(1,173)	(1,929)
Transaction costs paid		(7)	(5)
Net cash outflow from financing activities		<u>(335)</u>	<u>(479)</u>
Net increase/(decrease) in cash and cash equivalents		183	(154)
Cash and cash equivalents at the beginning of the year		<u>249</u>	<u>403</u>
Cash and cash equivalents at the end of the year		<u>432</u>	<u>249</u>

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

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1 Summary of significant accounting policies

This annual report is for the consolidated financial statements of AOP (parent entity), AAP, PLUS ES and their respective controlled entities (**Ausgrid Group**) for the year ended 30 June 2022.

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

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

On 27 June 2022, AustralianSuper sold 16.8% interest in the Ausgrid Group to APG, a Netherlands based pension provider and asset manager. As a result of the sale, AustralianSuper reduced its direct holding in the Ausgrid Group from 25.2% to 8.4%. The remaining holdings of the NSW State Government (49.6%) and IFM Investors (25.2%) remain unchanged.

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 PLUS ES.

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

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

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

These financial statements were authorised for issue by the Directors on 24 August 2022.

(a) Basis of preparation

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

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

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(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 a historical cost basis, except for the following:

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

(iii) Critical accounting estimates and judgements

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

(iv) Going concern

As at 30 June 2022, the Ausgrid Group had net current liabilities of \$254 million (30 June 2021: \$1,275 million) due to \$723 million of borrowings being classified as current borrowings as it matures within the next 12 months (refer to Note 12 for details).

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

- The Ausgrid Group generated net operating cash inflows of \$968 million for the year ended 30 June 2022 (2021: \$802 million). The Ausgrid Group is forecasting a positive cash balance for the next 12 months.
- The Ausgrid Group has available cash and cash equivalents of \$432 million (2021: \$249 million) and undrawn bank facilities of \$475 million as at 30 June 2022 (2021: \$473 million).
- The Ausgrid Group's credit rating was reaffirmed by Moody's in October 2021 and Standard and Poor's (**S&P**) in July 2022 with a stable rating outlook. This supports continued access to bank lending and capital markets.
- The Ausgrid Group Treasury Policy requires that the refinancing process for borrowing facilities to be commenced no later than 12 months prior to maturity date. Consistent with this policy, key bond program documentation is updated or reviewed annually to facilitate potential bond issuance in a wide range of capital markets. Management also continues to actively engage with the Ausgrid Group's core bank lenders to support the Ausgrid Group with potential bank debt issuance when and if required.
- According to the Partnership Deeds, each Partner is responsible for discharging the liabilities of the Partnerships in proportion with their respective Partnership interest, and each Partner indemnifies the other Partners from the default of the liabilities. Accordingly, the Partners will provide continuing financial support so that the Ausgrid Group is able to pay its debts as and when they fall due.

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

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the Ausgrid Group as at 30 June 2022. Group transactions, balances and unrealised gains and losses on transactions between group entities are eliminated.

1 Summary of significant accounting policies (continued)

(c) Foreign currency translation

(i) Functional and presentation currency

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

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

(d) Revenue recognition

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

(i) Network use of system revenue

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

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

(ii) Excess/shortfall in regulatory revenue

(a) DUOS

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

(b) TUOS

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

1 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

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

(c) CCF revenue

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

(iii) Unread meters

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

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

(iv) Transmission revenue

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

(v) Capital contributions

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

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

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

(vi) Street lighting revenue

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

(vii) Ancillary network services revenue

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

1 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

(viii) Metering revenue

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

(ix) Unregulated revenue

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

(x) Government grants

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

(xi) Interest income

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

(e) Income tax

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

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

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

(f) Leases

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

(i) Measurement and recognition of lease liabilities

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

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

1 Summary of significant accounting policies (continued)

(f) Leases (continued)

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

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

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

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

(ii) Measurement and recognition of ROU assets

ROU assets are measured at cost comprising the following:

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

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

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

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

(g) Impairment of assets

Goodwill is tested for impairment annually or whenever there is an indicator of impairment. Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, where the recoverable amount is the higher of an asset's FVLCOB or Value in Use (VIU). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (Cash-generating Unit (CGU)).

(h) Cash and cash equivalents

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

(i) Trade receivables

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

1 Summary of significant accounting policies (continued)

(i) Trade receivables (continued)

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

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

(j) Contract assets

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

(k) Inventories

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

(l) Property, plant and equipment

(i) Acquisition of assets

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

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

(ii) Historical cost method

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

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

(iii) Impairment assessment

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

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

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

1 Summary of significant accounting policies (continued)

(I) Property, plant and equipment (continued)

(iv) *Retirements or disposals*

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

(v) *Capitalisation of costs*

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

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

(vi) *Depreciation*

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

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

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

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

1 Summary of significant accounting policies (continued)

(m) Intangible assets

(i) Network assets

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

(ii) Customer contracts

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

(iii) Computer software

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

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

(iv) Goodwill

Goodwill arises from business combinations. The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

(n) Assets classified as held for sale

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

(o) Derivatives and hedging activities

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

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

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

1 Summary of significant accounting policies (continued)

(o) Derivatives and hedging activities (continued)

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

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

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

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

(a) Fair value hedges

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

(b) Cash flow hedges

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

(p) Trade and other payables

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

(q) Contract liabilities

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

(r) Borrowings

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

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

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

1 Summary of significant accounting policies (continued)

(s) Provisions

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

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

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

(t) Employee benefits

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

Liabilities for employee benefits for wages, salaries, annual leave, preserved sick leave and long service leave that are expected to be wholly settled within 12 months of the reporting date, represent present obligations resulting from employees' services provided, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Ausgrid Group expects to pay as at the reporting date and include related on-costs, such as workers compensation 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 discount rate is the market yield on national corporate bonds as at 30 June 2022 that have maturity dates aligned with the terms of the Ausgrid Group's obligations. The accrued portion of future benefits is determined using the projected unit credit method. Consideration is given to expected future wage and salary levels, and a range of demographic assumptions including retirement, withdrawal, death and disability rates. The calculation is performed by a qualified actuary.

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

(u) Superannuation

(i) Defined contribution plan

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

(ii) Defined benefit plan

The Ausgrid Group participates in the Energy Industries Superannuation Scheme (**the Scheme**) established by a Trust Deed made under an Act of the NSW Parliament, of which some divisions provide defined benefits. The Ausgrid Group accounts 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.

1 Summary of significant accounting policies (continued)

(u) Superannuation (continued)

(ii) *Defined benefit plan (continued)*

The discount rate is the market yield on national corporate bonds as at 30 June 2022 that have maturity dates aligned with the terms of the Ausgrid Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

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

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

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

(v) Other liabilities

(i) *Deferred revenue*

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

(ii) *Deposits*

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

(w) Goods and services tax

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

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

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

(x) Distributions

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

(y) Segment reporting

The Chief Operating Decision Makers (CODM) of the Ausgrid Group, as defined by AASB 8 Operating Segments (AASB 8), is the Executive Leadership Team, which is made up of the Chief Executive Officer and 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. For the purposes of AASB 8, the Ausgrid Group has one operating segment.

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

1 Summary of significant accounting policies (continued)

(y) Segment reporting (continued)

- 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, street lighting services and ancillary network services, such as facilitating network connections; and
- Unregulated services comprise services that the AER believes are provided on a sufficiently competitive or contestable basis such that economic regulation is not necessary. These services include contestable metering services, infrastructure services, and lease of property.

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

(z) Rounding of amounts

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

(aa) New accounting standards and interpretations

(i) New accounting standards and interpretations adopted

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

The amendments provide practical expedients to account for changes in the basis for determining contractual cash flows as a result of Interbank Offered Rate (**IBOR**) reform and provide additional temporary relief from applying specific hedge accounting requirements to hedging relationships that are directly affected by IBOR reform. The amendments also require additional disclosures, including information about new risks arising from the IBOR reform, how the entity manages transition to the alternative benchmark rates and quantitative information about derivatives and non-derivatives that have yet to transition.

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

The Ausgrid Group has assessed whether the hedged US\$ LIBOR risk component is a separately identifiable risk only when it first designates the hedge relationship and not on an ongoing basis.

The Ausgrid Group has US\$ CCIRS designated in hedge relationships which reference three month US\$ LIBOR. These hedge relationships will continue to reference three month US\$ LIBOR until it is deemed not representative of the market.

As at 30 June 2022, the Ausgrid Group had \$3,697 million of US\$ denominated interest bearing notes and \$311 million of US\$ CCIRS designated in hedge relationships referencing three month US\$ LIBOR.

(ii) New accounting standards and interpretations not yet adopted

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Ausgrid Group for the year ended 30 June 2022. The amendments are as follows:

- AASB 2021-2 Amendments to Australian Accounting Standards - Disclosure of Accounting Policies and Definition of Accounting Estimates; and

1 Summary of significant accounting policies (continued)

(aa) New accounting standards and interpretations (continued)

(iii) *New accounting standards and interpretations not yet adopted (continued)*

- AASB 2020-1 Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current.

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

2 Use of estimates and judgements

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

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

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

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

During the year ended 30 June 2022, the following significant events have occurred that provide further information on the estimates and judgements disclosed in the consolidated financial statements.

Revision of useful lives of contestable meters

During the year, the estimated useful lives of contestable meter assets within property, plant and equipment were revised from ten years to 15 years. The net effect of the change in the current financial year was a decrease in depreciation expense of \$12 million.

Assuming the assets are held until the end of their estimated useful lives, depreciation in future years in relation these assets will be (decreased)/increased by the following amounts:

Year ending 30 June	\$M
2023	(12)
2024	(12)
2025	(12)
2026 and onwards	48

2 Use of estimates and judgements (continued)

Compulsory acquisition of 33 Bligh Street, Sydney

On 5 November 2021, a notice of compulsory acquisition for the Ausgrid Group's property located at 33 Bligh Street, Sydney was published in the NSW Government Gazette (**Gazette**). Following the Gazette, Sydney Metro became the owner of the property; however, the actual compensation amount for the compulsory acquisition has yet to be determined. Accordingly, the Ausgrid Group disposed of the property, of which the disposal of network assets in Note 9 Property, plant and equipment mainly consist, and recognised a gain on disposal based on an estimated compensation amount. The associated receivable is included in other receivables in Note 7 Trade and other receivables and contract assets. The gain was recognised to the extent that it is highly probable that a significant reversal in the amount of revenue recognised will not occur. The compulsory acquisition process (including payment of compensation) is expected to be completed by the end of financial year 2023, at which time the gain on disposal will be updated to reflect the actual compensation amount.

3 Revenue

	2022 \$M	2021 \$M
Revenue components		
DUOS	1,446	1,447
TUOS		
Pass-through	282	282
Non pass-through	81	46
CCF pass-through	135	131
NUOS	1,944	1,906
Transmission	24	14
SCS capital contributions	123	116
Other	4	1
Total SCS revenue	2,095	2,037
Metering	54	56
Street lighting	34	32
ANS	64	70
ACS capital contributions	2	2
Total ACS revenue	154	160
Unregulated revenue	147	132
Total unregulated revenue	147	132
Interest income	1	1
Total other revenue	1	1
Total revenue¹	2,397	2,330

- (1) Revenue billings of \$1,363 million (2021: \$1,381 million) is derived from retailers that individually make up more than 10% of the Ausgrid Group's total revenue and relate to SCS revenue. For SCS revenue, the retailer carries the bad debt risk of customers' inability to pay. The Ausgrid Group's regulated revenue is protected from retailer insolvency by a pass-through mechanism which allows recovery of revenue lost due to retailer failure.

4 Expenses

(a) Distribution of energy costs

	2022 \$M	2021 \$M
SCS regulated pass-through costs		
TNSP	302	292
CCF	133	133
Total regulated pass-through costs	435	425
Other energy costs	1	-
Total distribution of energy costs	436	425

(b) Operating expenses

	2022 \$M	2021 \$M
(i) Operating expenses by nature		
Employee benefits expense	200	211
Superannuation expense (defined benefit plan)	3	4
Superannuation expense (defined contribution plan)	48	48
Reform costs - SCS	-	29
Reform costs - ACS	-	5
Employee benefits expenses	251	297
Contracted services	118	122
IT expenses	58	63
Land and other taxes	25	27
Materials	18	15
Short-term and low-value lease rentals	2	2
Other	17	15
Other expenses	238	244
Total operating expenses	489	541

(ii) Operating expenses by line of business

SCS	356	387
ACS	94	106
Unregulated	39	48
Total operating expenses	489	541

4 Expenses (continued)

(c) Depreciation and amortisation expense

	2022 \$M	2021 \$M
Depreciation of property, plant and equipment	545	581
Amortisation of intangible assets	96	97
Total depreciation and amortisation expense	641	678

(d) Finance costs

	2022 \$M	2021 \$M
Interest expense for borrowings	282	277
Interest expense from derivatives	241	254
Interest income from derivatives	(108)	(96)
Amortisation of loan transaction costs	18	23
Lease interest	3	3
Capitalised interest	(5)	(5)
Hedge ineffectiveness	10	(16)
Adjustments to the Syndicated Facility Agreement (SFA)	3	2
Other	(1)	4
Total finance costs	443	446

5 Taxation

	2022 \$M	2021 \$M
Income tax recognised in other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Changes in cash flow hedges	(407)	(124)
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Defined benefit superannuation actuarial gain	-	(8)
Total income tax recognised in other comprehensive income	(407)	(132)

6 Deferred taxation

	Cash flow hedge reserve \$M	Defined benefit superannuation plan \$M	Total \$M
Balance at 1 July 2020	307	(2)	305
Recognised in other comprehensive income	(124)	(8)	(132)
Balance at 30 June 2021	<u>183</u>	<u>(10)</u>	<u>173</u>
Recognised in other comprehensive income	(407)	-	(407)
Balance at 30 June 2022	<u>(224)</u>	<u>(10)</u>	<u>(234)</u>

7 Trade and other receivables and contract assets

	2022 \$M	2021 \$M
Current		
Trade receivables	53	59
Less: provision for impairment of trade receivables	(5)	(2)
Interest receivables from derivatives	36	35
Other receivables	197	2
Total current trade and other receivables	<u>281</u>	<u>94</u>
Contract assets		
Unread meters	263	249
Other	27	28
Total current contract assets	<u>290</u>	<u>277</u>
Non-current		
Other receivables	2	3
Total non-current other receivables	<u>2</u>	<u>3</u>

8 Assets classified as held for sale

	2022 \$M	2021 \$M
Land and buildings	5	5
Total assets classified as held for sale	<u>5</u>	<u>5</u>

9 Property, plant and equipment

	Land and buildings \$M	Network assets \$M	Plant and equipment \$M	Total ¹ \$M
At 30 June 2022				
At cost	771	18,340	832	19,943
Accumulated depreciation	(86)	(2,533)	(311)	(2,930)
Net carrying amount	685	15,807	521	17,013
Year ended 30 June 2022				
Net carrying amount at 1 July 2021	745	15,729	457	16,931
Additions	20	614	126	760
Disposals	(61)	(68)	(4)	(133)
Depreciation expense	(19)	(468)	(58)	(545)
Net carrying amount	685	15,807	521	17,013
At 30 June 2021				
At cost	815	17,811	714	19,340
Accumulated depreciation	(70)	(2,082)	(257)	(2,409)
Net carrying amount	745	15,729	457	16,931
Year ended 30 June 2021				
Net carrying amount at 1 July 2020	757	15,723	445	16,925
Additions	8	554	92	654
Disposals	-	(61)	(5)	(66)
Assets classified as held for sale	(1)	-	-	(1)
Depreciation expense	(19)	(487)	(75)	(581)
Net carrying amount	745	15,729	457	16,931

(1) ROU assets in property, plant and equipment

On 1 December 2016, the Ausgrid Group entered into a 99 year finance lease with the NSW State Government. The underlying leased assets arising from the 99 year finance lease are land and buildings, network assets and plant and equipment. These leased assets, with a ROU carrying value of \$16,482 million as at 30 June 2022, constitute a major portion of the Ausgrid Group's property, plant and equipment. The non-leased assets are land and buildings of \$9 million, network assets of \$13 million, and plant and equipment of \$509 million as at 30 June 2022. The depreciation expense on ROU assets during the year was \$488 million.

Assets under construction

At 30 June 2022, property, plant and equipment included the following assets under construction:

Land and buildings	\$27 million (2021: \$12 million)
Network assets	\$454 million (2021: \$409 million)
Plant and equipment	\$57 million (2021: \$41 million)

9 Property, plant and equipment (continued)

Capital expenditure

	2022 \$M	2021 \$M
SCS capital expenditure		
Replacement	404	321
Augmentation	22	31
Connection	18	20
Reliability	2	5
Non-network and other	79	51
Total SCS capital expenditure	525	428
ACS capital expenditure		
Street lighting and other ACS activities	39	44
Total ACS capital expenditure	39	44
Unregulated capital expenditure		
PLUS ES	101	77
Network Service Provider (NSP)	1	-
Total unregulated capital expenditure	102	77
Total capital expenditure¹	666	549

(1) The total capital expenditure by line of business of \$666 million is different to the total additions of property, plant and equipment of \$760 million and intangible assets of \$44 million (refer to Note 10). This difference of \$138 million (2021: \$143 million) comprises of capitalised capital contributions of \$135 million (2021: \$126 million), capitalised interest of \$5 million (2021: \$5 million), and a decrease of property, plant and equipment resulting from asset related provision movements of \$2 million (2021: \$12 million increase).

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

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

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

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

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

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

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

10 Intangible assets

	Network assets \$M	Customer contracts \$M	Computer software \$M	Goodwill \$M	Total \$M
At 30 June 2022					
At cost	1,686	4	500	2,135	4,325
Accumulated amortisation	(93)	(4)	(351)	-	(448)
Accumulated impairment	-	-	-	(348)	(348)
Net carrying amount	1,593	-	149	1,787	3,529
Year ended 30 June 2022					
Net carrying amount at 1 July 2021	1,611	1	183	1,787	3,582
Additions	-	-	44	-	44
Disposals	(1)	-	-	-	(1)
Amortisation expense	(17)	(1)	(78)	-	(96)
Net carrying amount	1,593	-	149	1,787	3,529
At 30 June 2021					
At cost	1,687	4	456	2,135	4,282
Accumulated amortisation	(76)	(3)	(273)	-	(352)
Accumulated impairment	-	-	-	(348)	(348)
Net carrying amount	1,611	1	183	1,787	3,582
Year ended 30 June 2021					
Net carrying amount 1 July 2020	1,628	2	224	1,787	3,641
Additions	-	-	38	-	38
Amortisation expense	(17)	(1)	(79)	-	(97)
Net carrying amount	1,611	1	183	1,787	3,582

Assets under construction

At 30 June 2022, assets under construction included in intangible assets related to computer software of \$31 million (2021: \$16 million).

(a) Impairment test of goodwill

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

In applying the FVLCO approach, the recoverable amount of each CGU is assessed using a discounted cash flow methodology. The cash flow forecasts are based on the latest business plans up to 30 June 2027 and the long-term corporate model for future years. These cash flows are then discounted using a relevant long-term post-tax discount rate. The discount rate is determined based on post-tax weighted average cost of capital using market based inputs.

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

10 Intangible assets (continued)

(a) Impairment test of goodwill (continued)

Goodwill is allocated to CGUs as follows:

	2022 \$M	2021 \$M
NSP	1,722	1,722
PLUS ES	65	65
Total	1,787	1,787

(i) NSP CGU

The NSP CGU carrying value was supported by its recoverable amount and no impairment exists at 30 June 2022 (2021: \$nil impairment). The key assumptions used in the discounted cash flow analysis were:

- Post-tax discount rate of 6.10% (2021: 6.00%);
- Terminal value Regulated Asset Base (**RAB**) multiple of 1.35x for SCS (2021: 1.30x) and a multiple of 28.50x (2021: 29.30x) applied to ACS and unregulated business terminal year cash flows;
- Terminal growth rate of 2.50% (2021: 2.50%); and
- Cash flow horizon of 30 years (2021: 30 years). Cash flow forecast includes assumptions related to growth in revenue, operating expenditure and capital expenditure, with the growth assumption primarily driven by the assumptions in the regulatory building block model, with growth being a function of the RAB and the allowable return from the AER in the current regulatory period (1 July 2019 to 30 June 2024) and expected future returns in years after 30 June 2024.

(ii) PLUS ES CGU

The PLUS ES CGU carrying value was supported by its recoverable amount and no impairment exists at 30 June 2022 (2021: \$nil impairment). The key assumptions used in the discounted cash flow analysis were:

- Post-tax discount rate of 8.20% (2021: 8.10%);
- Terminal growth rate of 3.00% (2021: 3.00%); and
- Cash flow horizon of 20 years (2021: 20 years). Cash flow forecast includes assumptions related to growth in revenue, operating expenditure and capital expenditure.

(b) Sensitivity to changes in assumptions

(i) NSP CGU

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

(ii) PLUS ES CGU

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

11 Trade and other payables

	2022 \$M	2021 \$M
Current		
Trade payables	83	74
Interest payable	138	141
Accruals	56	39
Other payables	61	48
Total current trade and other payables	338	302

12 Borrowings

	2022 \$M	2021 \$M
Current		
Lease liabilities	4	-
Total current lease liabilities	4	-
A\$ denominated interest bearing loans	-	1,367
US\$ denominated interest bearing notes	724	-
Less: Transaction costs	(1)	(3)
Total current loans and notes	723	1,364
	12(a)	
Total current borrowings	727	1,364
Non-current		
Lease liabilities	34	29
Total non-current lease liabilities	34	29
A\$ denominated interest bearing loans	3,844	3,647
A\$ denominated interest bearing notes	2,622	2,771
US\$ denominated interest bearing notes	2,973	3,774
EUR denominated interest bearing notes	1,627	1,074
Less: Transaction costs	(49)	(58)
Total non-current loans and notes	11,017	11,208
	12(a)	
Total non-current borrowings	11,051	11,237

SFA

On 2 July 2021, the Ausgrid Group renegotiated its existing \$721 million Capex Facility and \$250 million Working Capital Facility under the existing Terms and Conditions of the SFA. The maturity for both facilities was extended by two years from the original maturity date of 1 June 2022 to 1 June 2024.

12 Borrowings (continued)

Euro Medium Term Note (EMTN)

On 27 September 2021, the Ausgrid Group priced a EUR525 million senior secured medium term note issue in the EMTN market. This comprised EUR525 million of fixed rate notes at a coupon of 0.875% with a tenor of ten years. The net proceeds were used to repay Facility B1 (\$820 million) and Facility B5 (\$22 million) of the SFA.

(a) Loans and notes

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

- (1) The drawdown represents A\$ denominated loans and notes or, in regards to foreign currency denominated notes, the A\$ equivalent translated at the hedged rate at inception.
- (2) This relates to foreign exchange movements from the date of original drawdown of non AUD notes to 30 June 2022.
- (3) The fair value adjustment of \$396 million (2021: \$347 million) is made up of a hedge accounting adjustment of \$396 million (2021: \$350 million) due to interest rate movements, offset by a net gain on the amend and extend of the SFA of nil (2021: \$3 million).

12 Borrowings (continued)

(a) Loans and notes (continued)

- (4) Syndicated Facility Agreement includes Facilities B4, B5, C and D. The original drawdown of the SFA was \$11,931 million. This was reduced to \$2,424 million due to repayments of \$10,461 million, partially offset by additional drawdowns of \$954 million since the inception of the SFA.
- (5) The original drawdown of the ASF was \$1,650 million. This was reduced to \$1,420 million due to repayment of \$230 million.

	Drawdown \$M	Foreign exchange movements \$M	Fair value adjustments \$M	Transaction costs \$M	Carrying value \$M
30 June 2021					
Fixed rate notes					
10 year US\$770M USPP	966	58	67	(4)	1,087
12 year US\$430M USPP	540	32	43	(3)	612
15 year US\$430M USPP	540	32	52	(4)	620
10 year A\$29M USPP	29	-	-	-	29
12 year A\$103M USPP	103	-	-	(1)	102
15 year A\$88M USPP	88	-	-	(1)	87
7 year A\$750M AMTN	750	-	51	(3)	798
6.5 year A\$750M AMTN	750	-	(20)	(2)	728
7.25 year EUR650M EMTN	1,037	(8)	45	(3)	1,071
5 year US\$500M 144A	659	7	32	(2)	696
10.25 year US\$500M 144A	659	7	80	(7)	739
	6,121	128	350	(30)	6,569
Floating rate notes and facilities					
15 year A\$100M USPP	100	-	-	(1)	99
7 year A\$450M AMTN	450	-	-	(1)	449
5 year A\$220M AMTN	220	-	-	-	220
3.5 year A\$250M AMTN	250	-	-	(1)	249
Syndicated Facility Agreement	3,367	-	(3)	(16)	3,348
Asian Syndicated Facility	1,650	-	-	(12)	1,638
	6,037	-	(3)	(31)	6,003
Total loans and notes	12,158	128	347	(61)	12,572

12 Borrowings (continued)

(a) Loans and notes (continued)

	Maturity	Facility limit \$M	Drawn \$M	Undrawn \$M	Rate in currency of issue ¹
30 June 2022					
10 year US\$770M USPP fixed rate	1 Oct 27	1,118	1,118	-	3.500%
12 year US\$430M USPP fixed rate	1 Oct 29	624	624	-	3.600%
15 year US\$430M USPP fixed rate	1 Oct 32	624	624	-	3.750%
10 year A\$29M USPP fixed rate	1 Oct 27	29	29	-	4.445%
12 year A\$103M USPP fixed rate	1 Oct 29	103	103	-	4.615%
15 year A\$88M USPP fixed rate	1 Oct 32	88	88	-	4.857%
15 year A\$100M USPP floating rate	1 Oct 32	100	100	-	BBSW+1.800%
Total USPP notes		2,686	2,686	-	
7 year A\$750M AMTN fixed rate	30 Oct 24	750	750	-	3.750%
7 year A\$450M AMTN floating rate	30 Oct 24	450	450	-	BBSW+1.220%
6.5 year A\$750M AMTN fixed rate	5 Feb 27	750	750	-	1.814%
3.5 year A\$250M AMTN floating rate	5 Feb 24	250	250	-	BBSW+1.100%
5 year A\$220M AMTN floating rate	24 Feb 26	220	220	-	BBSW+1.000%
Total AMTN		2,420	2,420	-	
5 year US\$500M 144A fixed rate	1 May 23	726	726	-	3.850%
10.25 year US\$500M 144A fixed rate	1 Aug 28	726	726	-	4.350%
Total US144A notes		1,452	1,452	-	
7.25 year EUR650M EMTN fixed rate	30 Jul 25	987	987	-	1.250%
10 year EUR525M EMTN fixed rate	7 Oct 31	797	797	-	0.875%
Total EMTN		1,784	1,784	-	
SFA 5.25 year Term Facility B4	1 Dec 23	1,400	1,400	-	BBSY+1.050%
SFA 7.25 year Term Facility B5	1 Dec 25	574	574	-	BBSY+1.300%
ASF 7 year Term Facility A1	2 Jul 26	1,170	1,170	-	BBSY+1.300%
ASF 10 year Term Facility A2	2 Jul 29	250	250	-	BBSY+1.550%
Total term loans		3,394	3,394	-	
Capex Facility C	1 Jun 24	721	343	378	BBSY+0.650%
Working Capital Facility D ²	1 Jun 24	250	107	143	BBSY+0.650%
Total liquidity		971	450	521	
Total³		12,707	12,186	521	

- (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. Market convention is that BBSY is typically 0.05% higher than BBSW.
- (2) In addition to the \$107 million drawn under the Working Capital Facility D, \$46 million of bank guarantees have been issued under the facility (refer to Note 23) and therefore the unutilised funds available under the Working Capital Facility D is \$97 million.
- (3) The weighted average interest for the year ended 30 June 2022 was 3.45% (2021: 3.50%).

12 Borrowings (continued)

(a) Loans and notes (continued)

	Maturity	Facility limit \$M	Drawn \$M	Undrawn \$M	Rate in currency of issue
30 June 2021					
10 year US\$770M USPP fixed rate	1 Oct 27	1,024	1,024	-	3.500%
12 year US\$430M USPP fixed rate	1 Oct 29	572	572	-	3.600%
15 year US\$430M USPP fixed rate	1 Oct 32	572	572	-	3.750%
10 year A\$29M USPP fixed rate	1 Oct 27	29	29	-	4.445%
12 year A\$103M USPP fixed rate	1 Oct 29	103	103	-	4.615%
15 year A\$88M USPP fixed rate	1 Oct 32	88	88	-	4.857%
15 year A\$100M USPP floating rate	1 Oct 32	100	100	-	BBSW+1.800%
Total USPP notes		2,488	2,488	-	
7 year A\$750M AMTN fixed rate	30 Oct 24	750	750	-	3.750%
7 year A\$450M AMTN floating rate	30 Oct 24	450	450	-	BBSW+1.220%
6.5 year A\$750M AMTN fixed rate	5 Feb 27	750	750	-	1.814%
3.5 year A\$250M AMTN floating rate	5 Feb 24	250	250	-	BBSW+1.100%
5 year A\$220M AMTN floating rate	24 Feb 26	220	220	-	BBSW+1.000%
Total AMTN		2,420	2,420	-	
5 year US\$500M 144A fixed rate	1 May 23	666	666	-	3.850%
10.25 year US\$500M 144A fixed rate	1 Aug 28	666	666	-	4.350%
Total US144A notes		1,332	1,332	-	
7.25 year EUR650M EMTN fixed rate	30 Jul 25	1,029	1,029	-	1.250%
Total EMTN		1,029	1,029	-	
SFA 5.5 year Term Facility B1	1 Jun 22	917	917	-	BBSY+0.800%
SFA 5.25 year Term Facility B4	1 Dec 23	1,400	1,400	-	BBSY+1.050%
SFA 7.25 year Term Facility B5	1 Dec 25	600	600	-	BBSY+1.300%
ASF 7 year Term Facility A1	2 Jul 26	1,400	1,400	-	BBSY+1.300%
ASF 10 year Term Facility A2	2 Jul 29	250	250	-	BBSY+1.550%
Total term loans		4,567	4,567	-	
Capex Facility C	1 Jun 22	721	343	378	BBSY+0.800%
Working Capital Facility D	1 Jun 22	250	107	143	BBSY+0.800%
Total liquidity		971	450	521	
Total		12,807	12,286	521	

12 Borrowings (continued)

(b) Reconciliation of liabilities arising from financing activities

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

	1 July 2020	Cash flows	Fair value adjustments	Foreign exchange movements	Amortisation	Acquisition	30 June 2021
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
A\$ denominated interest bearing loans	6,707	(1,694)	1	-	-	-	5,014
A\$ denominated interest bearing notes	1,593	1,220	(42)	-	-	-	2,771
US\$ denominated interest bearing notes	4,389	-	(281)	(334)	-	-	3,774
EUR denominated interest bearing notes	1,125	-	(16)	(35)	-	-	1,074
Transaction costs	(79)	(5)	-	-	23	-	(61)
Lease liabilities	28	(4)	-	-	3	2	29
Total liabilities from financing activities	13,763	(483)	(338)	(369)	26	2	12,601

13 Provisions

	Employee benefits \$M	Restructuring \$M	Workers compensation and legal \$M	Other \$M	Total \$M
Balance at 1 July 2021	286	4	32	58	380
Additional provision	123	-	7	-	130
Amounts used	(127)	(2)	(10)	(4)	(143)
Amounts reversed	(2)	-	-	(1)	(3)
Amounts transferred	1	-	-	-	1
At 30 June 2022	281	2	29	53	365
Current	272	2	10	17	301
Non-current	9	-	19	36	64
At 30 June 2022	281	2	29	53	365
Balance at 1 July 2020	319	2	31	47	399
Additional provision	140	27	8	15	190
Amounts used	(148)	(25)	(7)	(3)	(183)
Amounts reversed	(25)	-	-	(1)	(26)
At 30 June 2021	286	4	32	58	380
Current	249	4	10	12	275
Non-current	37	-	22	46	105
At 30 June 2021	286	4	32	58	380

(a) Employee benefits

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

Employee benefit amounts expected to be settled within 12 months have been measured at the amounts expected to be paid when the liabilities are settled. As at 30 June 2022, the Ausgrid Group had net defined benefit plan assets of \$1 million (2021: net defined benefit plan liabilities of nil). The net defined benefit plan assets were transferred from non-current provision for employee benefits to non-current assets. Refer to Note 18 for details.

(b) Restructuring

The Ausgrid Group's Transformation Program has resulted in a reorganisation of functions, including a reduction in headcount. The restructuring provision reflects the costs of redundancy payments expected to be made when impacted employees exit the organisation.

(c) Workers compensation and legal

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

13 Provisions (continued)

(c) Workers compensation and legal (continued)

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

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

(d) Other

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

(i) Provision for PCB disposal costs

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

The provision as at 30 June 2022 was \$17 million (2021: \$20 million) and reflects an estimate of the present value of the expenditure required to settle the obligation at the reporting date, based on current legal requirements and technology. Future disposal costs are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period.

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

(ii) Provision for costs relating to decommissioning assets

The provision to cover the expected future costs associated with decommissioning the Ausgrid Group's network assets as at 30 June 2022 was \$33 million (2021: \$34 million). Future costs are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period.

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

14 Other liabilities and contract liabilities

	2022 \$M	2021 \$M
Current		
Deposits	1	1
Deferred revenue	5	4
Total current other liabilities	<u>6</u>	<u>5</u>
 Current contract liabilities		
Street lighting capital contribution	2	2
Deferred street lighting revenue	3	3
Development rights agreement	3	1
Other	2	2
Total current contract liabilities	<u>10</u>	<u>8</u>
 Non-current contract liabilities		
Street lighting capital contribution	41	31
Deferred street lighting revenue	26	26
Development rights agreement	-	7
Total non-current contract liabilities	<u>67</u>	<u>64</u>

During the year, \$6 million revenue relating to street lighting (both street lighting capital contributions and deferred street lighting revenue) was recognised (2021: \$3 million) that was included in the contract liabilities balance on 1 July 2021.

15 Derivatives

	2022 \$M	2021 \$M
Current assets		
CCIRS	65	-
Forward foreign exchange contracts	3	-
Total current derivative financial assets	<u>68</u>	<u>-</u>
 Non-current asset		
IRS	739	117
CCIRS	275	393
Forward foreign exchange contracts	5	-
Total non-current derivative financial assets	<u>1,019</u>	<u>510</u>
 Total derivative financial assets	<u>1,087</u>	<u>510</u>

15 Derivatives (continued)

	2022 \$M	2021 \$M
Non-current liability		
IRS	(124)	(632)
CCIRS	(248)	-
Total non-current derivative financial liabilities	<u>(372)</u>	<u>(632)</u>
Total derivative financial liabilities	<u>(372)</u>	<u>(632)</u>
Net derivative financial assets/(liabilities)	<u>715</u>	<u>(122)</u>

On 31 January 2022, ten IRS and three CCIRS were novated from The Hongkong and Shanghai Banking Corporation Limited, Sydney Branch (**HSBC**) to Commonwealth Bank of Australia (**CBA**). The old HSBC swaps were de-designated from existing hedge relationships and the new CBA swaps were designated in new hedge relationships. As a result of this novation, a gain of \$1 million was recognised in finance costs in the current year.

The accumulated hedging impact of \$28 million relating to the HSBC swaps prior to the novation remains in the cash flow hedge reserve at 30 June 2022 and will be amortised as an expense to finance costs over the remaining life of the novated swaps.

16 Partner capital

	AOP		AAP		PLUS ES	
	Number	\$M	Number	\$M	Number ¹	\$M
30 June 2022						
Ordinary capital interest	504	865	504	3,538	4,612	92
A class capital interest	496	851	496	3,483	4,538	91
Total contributed equity	<u>1,000</u>	<u>1,716</u>	<u>1,000</u>	<u>7,021</u>	<u>9,150</u>	<u>183</u>
30 June 2021						
Ordinary capital interest	504	865	504	3,538	4,612	92
A class capital interest	496	851	496	3,483	4,538	91
Total contributed equity	<u>1,000</u>	<u>1,716</u>	<u>1,000</u>	<u>7,021</u>	<u>9,150</u>	<u>183</u>

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

(a) Partner capital

Ordinary capital interest

Ordinary capital interests of AOP, AAP and PLUS ES were 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 PLUS ES Partner Pty Limited as trustee for Blue PLUS ES Partner Trust (**Blue PLUS ES**) on 1 November 2017. Blue AOP, Blue AAP and Blue PLUS ES are controlled by a consortium led by IFM Investors, AustralianSuper and APG. The interests are classified as equity and are fully paid.

16 Partner capital (continued)

(a) Partner capital (continued)

A class capital interest

A class capital interest of AOP, AAP and PLUS ES were issued to four separate Electricity Retained Interest Corporation entities (**ERIC Partners**) controlled by the NSW State Government on 20 October 2016 for AOP and AAP and 1 November 2017 for PLUS ES. 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 PLUS ES in proportion with their respective Partnership interest and each Partner indemnifies the other Partners from the default of the liabilities.

(c) Distribution

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

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

17 Retained earnings

	AOP \$M	AAP \$M	PLUS ES \$M	Total \$M
Balance at 1 July 2021	(94)	(552)	(22)	(668)
Profit for the year	156	488	36	680
Balance at 30 June 2022	62	(64)	14	12
Balance at 1 July 2020	(262)	(612)	(28)	(902)
Profit for the year	168	60	6	234
Balance at 30 June 2021	(94)	(552)	(22)	(668)

18 Superannuation - defined benefit plan

The Ausgrid Group has a Defined Benefit Superannuation Plan (**the Fund**) covering a number of employees, which requires contributions to be made to a separately administered fund.

(a) Nature of the benefits provided by the Fund

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

The 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.

(c) Reconciliation of the net defined benefit assets/(liabilities)

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

18 Superannuation - defined benefit plan (continued)

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

	Present value of obligations \$M	Fair value of Fund assets \$M	Total \$M
At 1 July 2021	<u>(271)</u>	<u>271</u>	<u>-</u>
Current service cost	(3)	-	(3)
Interest (expense)/income	(8)	8	-
Settlements	-	-	-
Defined benefit superannuation (expense)/income recognised in profit or loss	<u>(11)</u>	<u>8</u>	<u>(3)</u>
Contributions by the Fund participants:			
Employers	-	4	4
Fund participants	(2)	2	-
	<u>(2)</u>	<u>6</u>	<u>4</u>
Remeasurements:			
Return on Fund assets, excluding amounts included in interest income	-	(8)	(8)
Loss from change in demographic assumptions	(2)	-	(2)
Gain from change in financial assumptions	29	-	29
Loss from change in liability experience	(19)	-	(19)
Defined benefit superannuation actuarial gain/(loss) recognised in other comprehensive income	<u>8</u>	<u>(8)</u>	<u>-</u>
Benefits paid	23	(23)	-
Tax and expenses paid	1	(1)	-
	<u>24</u>	<u>(24)</u>	<u>-</u>
At 30 June 2022	<u>(252)</u>	<u>253</u>	<u>1</u>

18 Superannuation - defined benefit plan (continued)

(d) Fair value of Fund assets

The fair value of Fund assets, provided by the Trustee of the Scheme, is for the total assets of Divisions B, C and D of the Scheme and comprise of defined benefit and defined contribution assets for all participating employers. The value of defined benefit assets attributable to the Ausgrid Group cannot be separately disclosed. Refer to Note 26(f) for details on fair value hierarchy.

Asset category	Total \$M	Quoted price in active markets for identical assets	Significant observable input	Unobservable input
		Level 1 \$M	Level 2 \$M	Level 3 \$M
At 30 June 2022				
Energy Investment Fund	1,767	-	1,767	-
At 30 June 2021				
Energy Investment Fund	2,012	-	2,012	-

(e) Significant actuarial assumptions at the reporting date

Expected salary increase rate (excluding promotional increase)	2.95% for 2022/23; 3.00% for 2023/24; and 4.00% pa thereafter (2021: 2.00% for 2021/22; 2.25% for 2022/23; 2.50% for 2023/24; and 2.75% pa thereafter)
Rate of Consumer Price Index (CPI) increase	4.00% for 2022/23; 2.76% for 2023/24; 2.35% for 2024/25; 2.34% for 2025/26; 2.37% for 2026/27; 2.26% for 2027/28 and 2.50% pa thereafter (2021: 1.48% for 2021/22; 1.81% for 2022/23; 2.25% for 2023/24; 2.26% for 2024/25; 2.35% for 2025/26 and 2.50% pa thereafter)
Discount rate	5.30% pa (2021: 2.98% pa)
Pensioner mortality	The pensioner mortality rates used are as per the triennial valuation of the Scheme as at 30 June 2021. The pension mortality rates are based on experience of the NSW public sector.

19 Key management personnel compensation

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

Non-Executive Directors

Dr Helen Nugent AC

Ashley Barker

Belinda Gibson

Hans-Martin Aerts (appointed on 27 June 2022)

Jason Peasley

Joo Hyung (Jay) Ryu (appointed on 27 June 2022)

Michael Byrne

Michael Hanna

Robert Wright

Steven MacDonald

Wendy Thorpe (resigned on 27 June 2022)

The above are Non-Executive Directors of AOP, AAP and PLUS ES. In addition to the above, Hugh Gleeson was a Non-Executive Director of AOP and AAP through to 27 June 2022 (resigned). Terry Sinclair was a Non-Executive Director of PLUS ES through to 27 June 2022 (resigned).

Key management personnel remuneration

The remuneration of the key management personnel was:

	2022 \$	2021 \$
Short-term employee benefits	15,666,463	10,447,676
Long-term benefits	6,044,157	3,601,784
Termination benefits	10,981	1,611,963
Post-employment benefits	273,033	306,205
	21,994,634	15,967,628

20 Remuneration of auditors

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

(i) *Audit and other assurance services*

	2022 \$	2021 \$
Audit and review of financial statements	995,000	935,125
Other assurance services		
Regulatory audit services	268,549	256,839
Ringfencing compliance audit services	68,000	-
Review of debt offering documents	-	100,000
IT controls review	91,000	50,000
Total remuneration for audit and other assurance services	1,422,549	1,341,964

(ii) *Other non-assurance services*

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

Total remuneration	1,556,049	1,450,464
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21 Capital expenditure commitments

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

	2022 \$M	2021 \$M
Within one year	283	135
Later than one year but no later than five years	33	14
	316	149

22 Leases

Lease receivables - leases as lessor

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

	2022 \$M	2021 \$M
Within one year	9	4
Later than one year but no later than five years	18	4
Later than five years	6	5
	33	13

23 Contingent liabilities and contingent assets

	2022 \$M	2021 \$M
Contingent liabilities		
Guarantees provided to regulatory and statutory authorities	40	43
Guarantees provided to external parties	6	5
	46	48
Contingent assets		
Potential recoveries from workers compensation claims	2	1
	2	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.

24 Group entities

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

Name of entity

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

25 Cash flow information

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

	2022 \$M	2021 \$M
Profit for the year	680	234
Add/(less) non-cash items:		
Depreciation and amortisation	641	678
Non-cash capital contributions	(124)	(117)
Unwinding of government grants	(1)	(1)
Amortisation of loan transaction costs	18	23
Hedge ineffectiveness	10	(16)
Capitalised interest	(5)	(5)
Interest accrual	(4)	(4)
Adjustments to SFA	3	2
Net (gain)/loss on disposal of property, plant and equipment	(247)	6
Changes in assets and liabilities:		
Trade and other receivables	2	9
Contract assets	(13)	(15)
Prepayments	2	(8)
Inventories	-	8
Trade and other payables	14	(4)
Contract liabilities	(8)	20
Provisions	(1)	(8)
Other liabilities	1	-
Net cash inflow from operating activities	968	802

26 Financial risk management

(a) Financial risk management objectives and policies

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

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

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

26 Financial risk management (continued)

(b) Credit risk

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

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

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

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

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

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

The loss allowance provision as at 30 June 2022 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
2022					
Expected loss rate	0.16%	39.73%	30.30%	23.62%	
Gross carrying amount (\$M)	565	8	2	3	578
Loss allowance provision (\$M)	-	(3)	(1)	(1)	(5)
Net receivables and contract assets	565	5	1	2	573
2021					
Expected loss rate	0.13%	6.96%	17.54%	20.20%	
Gross carrying amount (\$M)	362	7	3	4	376
Loss allowance provision (\$M)	-	-	(1)	(1)	(2)
Net receivables and contract assets	362	7	2	3	374

(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 AUD.

26 Financial risk management (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

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

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

Sensitivity

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

	Impact on post-tax profit		Impact on other components of equity	
	2022	2021	2022	2021
	\$M	\$M	\$M	\$M
US\$/A\$ exchange rate - increase 10% ¹	3	5	(18)	(16)
US\$/A\$ exchange rate - decrease 10% ¹	(2)	(7)	20	27
EUR/A\$ exchange rate - increase 10% ¹	2	-	-	-
EUR/A\$ exchange rate - decrease 10% ¹	(5)	(1)	2	2

(1) Holding all other variables constant

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

Derivative financial instruments - CCIRS (USPP and US144A)

	2022	2021
Carrying amount (\$M)	479	105
Notional amount in USD (\$M)	2,630	2,630
	May 2023 - Oct 2032	May 2023 - Oct 2032
Maturity	2032	2032
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	459	142
Change in value of derivative used to determine hedge effectiveness (\$M)	463	121
Weighted average hedged exchange rate for the year	0.78	0.78

Derivative financial instruments - CCIRS (EMTN)

Carrying amount (\$M)	(94)	(36)
Notional amount in EUR (\$M)	1,175	650
	Jul 2025 - Oct 2031	Jul 2025
Maturity	2031	2025
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	(105)	(15)
Change in value of derivative used to determine hedge effectiveness (\$M)	(108)	(19)
Weighted average hedged exchange rate for the year	0.62	0.63
Balances remaining in the cash flow hedge reserve for hedge relationships terminated due to novation	(1)	-

26 Financial risk management (continued)

(c) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

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

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

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

Instruments used by the Ausgrid Group

IRS are used to hedge interest cost and manage the variable rate exposure of total debt. Interest rates are fixed by putting in place IRS contracts which exchange floating rate obligations into fixed rate obligations. The interest cost on 98.5% (2021: 99.1%) of total debt outstanding is fixed.

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

	Weighted average interest rate %	Balance \$M	% of total loans
2022			
Bank overdrafts, bank loans and note issuances ¹	1.66	11,830	100.0%
IRS (notional principal amount) ²	2.14	11,650	98.5%
Net exposure to cash flow interest rate risk	0.93 - 2.10	180	1.5%

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

(2) Excludes forward starting swaps commencing post 30 June 2022

2021

Bank overdrafts, bank loans and note issuances	1.44	12,158	100.0%
IRS (notional principal amount)	2.20	12,055	99.1%
Net exposure to cash flow interest rate risk	0.91 - 1.90	103	0.9%

26 Financial risk management (continued)

(c) Market risk (continued)

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

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

	2022		2021	
	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	1,720	1,720	1,720	1,720
US\$ denominated fixed rate liability	3,364	3,364	3,364	3,364
EUR denominated fixed rate liability	1,882	1,882	1,037	1,037
A\$ denominated floating rate liability	4,864	4,684	6,037	5,934
	11,830	11,650	12,158	12,055

The proportion of net debt exposed to floating rates is 1.5% (2021: 0.9%)

The Ausgrid Group accounts for all its fixed rate financial assets and liabilities at amortised cost. The Ausgrid Group has variable rate financial liabilities at the reporting date. The Ausgrid Group's borrowings are 98.5% hedged (2021: 99.1%). A change in interest rates by one percentage point at the reporting date would have an impact on the Ausgrid Group's profit or loss or equity as discussed below.

Sensitivity

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

	Impact on post-tax profit		Impact on other components of equity	
	2022 \$M	2021 \$M	2022 \$M	2021 \$M
Interest rates - increase by 1% ¹	2	2	393	551
Interest rates - decrease by 1% ¹	(5)	(4)	(418)	(581)

(1) Holding all other variables constant

26 Financial risk management (continued)

(c) Market risk (continued)

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

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

Derivative financial instruments - IRS¹

	2022	2021
Carrying amount (\$M)	622	(521)
Notional amount (\$M)	13,560	14,235
	Jul 2022 - Jul 2032	Jul 2021 - Jul 2031
Maturity	2032	2031
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	648	(518)
Change in value of derivative used to determine hedge effectiveness (\$M)	649	(521)
Weighted average hedged rate for the year (%)	2.22	2.26
Balances remaining in the cash flow hedge reserve for hedge relationships terminated due to novation	(27)	-

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

Derivative financial instrument - CCIRS

Carrying amount (\$M)	(293)	324
Notional amount (\$M)	5,602	4,527
	May 2023 - Oct 2032	May 2023 - Oct 2032
Maturity	2032	2032
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	(255)	322
Change in value of derivative used to determine hedge effectiveness (\$M)	(293)	324
Weighted average hedged rate for the year (%)	2.92	3.21

(d) Capital risk management

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

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

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

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

26 Financial risk management (continued)

(e) Liquidity risk

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

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

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

(i) Maturities of financial liabilities

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

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

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

26 Financial risk management (continued)

(e) Liquidity risk (continued)

(i) Maturities of financial liabilities (continued)

Contractual maturities of financial liabilities	Less than 6 months \$M	6 - 12 months \$M	Between 1 and 2 years \$M	Between 2 and 5 years \$M	Over 5 years \$M	Total contractual cash flows \$M	Carrying amount \$M
2022							
Non-derivatives							
Trade payables	338	-	-	-	-	338	338
Loans and notes	342	916	1,765	5,331	5,343	13,697	11,740
Lease liabilities	4	4	7	11	128	154	38
Total non-derivatives	684	920	1,772	5,342	5,471	14,189	12,116
Derivatives							
IRS	(1)	13	37	80	10	139	124
CCIRS	4	44	80	113	24	265	248
Total derivatives	3	57	117	193	34	404	372
	687	977	1,889	5,535	5,505	14,593	12,488
2021							
Non-derivatives							
Trade payables	302	-	-	-	-	302	302
Loans and notes	141	1,498	937	5,477	6,107	14,160	12,572
Lease liabilities	2	2	3	10	127	144	29
Total non-derivatives	445	1,500	940	5,487	6,234	14,606	12,903
Derivatives							
IRS	88	82	137	212	46	565	632
Total derivatives	88	82	137	212	46	565	632
	533	1,582	1,077	5,699	6,280	15,171	13,535

26 Financial risk management (continued)

(f) Recognised fair value measurements

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

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

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

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

2022	Notes	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Recurring fair value measurements					
Derivatives	15	-	715	-	715
Total		-	715	-	715
Non-recurring fair value measurements					
Assets classified as held for sale	8	-	-	5	5
Total		-	-	5	5
2021					
Recurring fair value measurements					
Derivatives	15	-	(122)	-	(122)
Total		-	(122)	-	(122)
Non-recurring fair value measurements					
Assets classified as held for sale	8	-	-	5	5
Total		-	-	5	5

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

(g) Recurring fair value measurements

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

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

26 Financial risk management (continued)

(h) Non-recurring fair value measurements

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

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

(i) Fair value versus carrying amount

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

		2022		2021	
	Notes	Carrying amount \$M	Fair value \$M	Carrying amount \$M	Fair value \$M
Financial assets carried at amortised cost					
Cash and cash equivalents		432	432	249	249
Trade and other receivables	7	283	283	97	97
Contract assets	7	290	290	277	277
Total financial assets		1,005	1,005	623	623
Financial liabilities carried at amortised cost					
Loans and notes	12(a)	11,740	11,580	12,572	13,159
Lease liabilities	12	38	38	29	29
Trade and other payables	11	338	338	302	302
Deposits	14	1	1	1	1
Total financial liabilities		12,117	11,957	12,904	13,491

27 Events occurring after the reporting period

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, as 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 Ausgrid Group's financial position as at 30 June 2022 and of its performance for the financial year ended on that date, and in accordance with the accounting policies described in Note 1 to the consolidated financial statements; and
- (b) there are reasonable grounds to believe that the Ausgrid Group will be able to pay its debts as and when they become due and payable.

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

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

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



Dr Helen Nugent AG 4/08/2022 2:14 PM
Director

24 August 2022



Robert Wright 24/08/2022 4:27 PM
Chairman Audit Committee

24 August 2022



Independent auditor's report

To the partners of the Ausgrid Group

Our opinion

In our opinion the accompanying financial report gives a true and fair view of the financial position of the Ausgrid Group as at 30 June 2022 and of its financial performance and its cash flows for the year then ended in accordance with the accounting policies described in Note 1.

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

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2022
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

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

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

Independence

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

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

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

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 \$36 million, which represents approximately 2.5% of the budgeted Group earnings before interest, tax, depreciation, and amortisation (EBITDA). The EBITDA is adjusted to exclude other income earned outside of the ordinary course of business for the Group, such as gains on sales of assets. - We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. - We chose EBITDA because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. - We utilised a 2.5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds.	- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. - The Group has operations across Sydney, the Central Coast and the Hunter region within New South Wales, with the accounting functions led from the Group's corporate head office in Sydney and Wallsend in Newcastle. - The Group is made up of 2 cash generating units. AOP & AAP and the entities they control represent the Network Service Provider ("NSP") CGU and PLUS ES and the entities it controls represent the PLUS ES CGU (as detailed in Note 10a). - We conducted an audit of the financial information of the Group which consists of the NSP and PLUS ES CGUs.	- Amongst other relevant topics, we communicated the following key audit matter to the Audit Committee: - Compulsory acquisition of 33 Bligh Street - This has been 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
Compulsory acquisition of 33 Bligh Street (Refer to note 2) In November 2021, the Group's property on 33 Bligh Street in the Sydney CBD was subject to a compulsory acquisition by the NSW Government, which resulted in the transfer of ownership of the property from the Group to Sydney Metro at the time of the compulsory acquisition. However, as of 30 June 2022, a final transaction price has not yet been determined. The accounting for compulsory acquisition of the Bligh Street property is considered a key audit matter due to: 1. The significant judgement and uncertainty involved in determining the transaction price for the compulsory acquisition; and 2. The size of the transaction relative to other asset divestments undertaken during the year.	We performed the following procedures, amongst others: • Reconciled the offer price from Sydney Metro to the signed letter of offer. • Considered the mechanisms within the compulsory acquisition process, which stage the Group is currently at, and how this would impact the final transaction price. • Assessed alternative scenarios and considered the possibility of the most likely price at which the income recognised will not have to be reversed in a future period. • Assessed the valuation prepared for Sydney Metro by an independent third-party valuer for the Bligh Street property. • Assessed whether the disclosures within the financial statements are reasonable in light of the requirements of the Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other matter

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

Responsibilities of the directors for the financial report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with the accounting policies described in Note 1, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

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

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

PriceWaterhouseCoopers

PriceWaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Craig Thomason', with a stylized flourish at the end.

Craig Thomason
Partner

Sydney
24 August 2022

Glossary

AAP	Ausgrid Asset Partnership
AASB	Australian Accounting Standards Board
AASB 8	AASB 8 Operating Segments
AASB 9	AASB 9 Financial Instruments
AASB 13	AASB 13 Fair Value Measurement
ACS	Alternative Control Services
AER	Australian Energy Regulator
AMTN	Australian Medium Term Note
ANS	Ancillary Network Services
AOP	Ausgrid Operator Partnership
APG	APG Asset Management
ASF	Asian Syndicated Facility
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AUD	Australian Dollars
Ausgrid Group	AOP (parent entity), AAP, PLUS ES and their respective controlled entities
BBSW/BBSY	Bank Bill Swap Rate
Blue AAP	Blue Asset Partner Trust
Blue AOP	Blue Op Partner Trust
Blue PLUS ES	Blue PLUS ES Partner Trust
CBA	Commonwealth Bank of Australia
CCF	Climate Change Fund
CCIRS	Cross Currency Interest Rate Swaps
CGU	Cash-generating Unit
CODM	Chief Operating Decision Makers as defined by AASB 8 Operating Segments
CPI	Consumer Price Index
DNSP	Distribution Network Service Provider
DUOS	Distribution Use of System
EMTN	Euro Medium Term Note
ERIC Partners	Electricity Retained Interest Corporation vehicles

Glossary (continued)

FVLCD	Fair Value Less Costs of Disposal
GST	Goods and Services Tax
Gazette	NSW Government Gazette
HSBC	The Hongkong and Shanghai Banking Corporation Limited, Sydney Branch
IASB	International Accounting Standards Board
IBOR	Interbank Offered Rate
IFRS	International Financial Reporting Standards
IRS	Interest Rate Swaps
IT	Information Technology
LIBOR	London Interbank Offered Rate
MAR	Maximum Allowable Revenue
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
NSP	Network Service Provider
NSW	New South Wales
NUOS	Network Use of System
PCB	Polychlorinated Biphenyls
PLUS ES	PLUS ES Partnership
RAB	Regulated Asset Base
ROU	Right of Use
SaaS	Software-as-a-Service
S&P	Standard and Poor's
SCS	Standard Control Services
SFA	Syndicated Facility Agreement
the Fund	Divisions B, C and D in the Scheme. These divisions provide defined benefits and are referred to collectively as 'the Fund'
the Scheme	The Energy Industries Superannuation Scheme
TNSP	Transmission Network Service Provider
TUOS	Transmission Use of System
USPP	US Private Placement
VIU	Value in Use