



**Ausgrid Group
Annual report
30 June 2019**



Ausgrid Group

Annual report 30 June 2019

Contents

	Page
Financial statements	
Consolidated statement of profit or loss and other comprehensive income	2
Consolidated statement of financial position	3
Consolidated statement of changes in equity	5
Consolidated statement of cash flows	7
Notes to the consolidated financial statements	8
Directors' declaration	59
Independent auditor's report	60
Glossary	65



Ausgrid Group
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

	Notes	2019 \$M	2018 \$M
Revenue	5	2,598	2,616
Distribution of energy costs	6(a)	(355)	(436)
Depreciation and amortisation expense	6(c)	(593)	(543)
Finance costs	6(d)	(478)	(482)
Employee benefits expense	6(b)	(363)	(308)
Impairment expense	12	(348)	-
Other expenses	6(b)	(278)	(320)
Loss on disposal of property, plant and equipment		(21)	(10)
Profit before income tax		162	517
Income tax expense		-	-
Profit for the year		162	517
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Changes in the fair value of cash flow hedges		(693)	(90)
Income tax relating to these items	7	208	27
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Defined benefit superannuation actuarial (losses)/gains	20(c)	(12)	2
Income tax relating to these items	7	4	(1)
Other comprehensive loss for the year		(493)	(62)
Total comprehensive (loss)/income for the year		(331)	455
Profit/(loss) for the year attributable to Partners:			
AOP		(168)	217
AAP		343	309
PES		(13)	(9)
Profit for the year		162	517
Total comprehensive (loss)/income for the year is attributable to Partners:			
AOP		(176)	218
AAP		(142)	246
PES		(13)	(9)
Total comprehensive (loss)/income for the year		(331)	455

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



Ausgrid Group
Consolidated statement of financial position
As at 30 June 2019

	Notes	2019 \$M	2018 \$M
Current assets			
Cash and cash equivalents		187	217
Trade and other receivables	9	93	426
Contract assets	9	326	-
Inventories		38	39
Assets classified as held for sale	10	4	10
Total current assets		648	692
Non-current assets			
Property, plant and equipment	11	16,735	16,212
Intangible assets	12	3,671	3,981
Derivative financial asset	17	641	95
Deferred tax assets	8	206	-
Total non-current assets		21,253	20,288
Total assets		21,901	20,980
Current liabilities			
Trade and other payables	13	292	301
Contract liabilities	16	4	-
Borrowings	14	2	2
Provisions	15	420	351
Deferred government grants		2	2
Other liabilities	16	4	8
Total current liabilities		724	664
Non-current liabilities			
Contract liabilities	16	15	-
Borrowings	14	13,001	12,136
Derivative financial liability	17	664	40
Provisions	15	110	121
Deferred government grants		41	42
Deferred tax liabilities	8	-	6
Total non-current liabilities		13,831	12,345
Total liabilities		14,555	13,009
Net assets		7,346	7,971

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 2019
 (continued)

	Notes	2019 \$M	2018 \$M
Equity attributable to Partners of AOP			
Contributed equity	18	1,716	1,716
Reserves		16	24
Retained earnings	19	<u>(476)</u>	<u>(103)</u>
Total equity attributable to Partners of AOP		<u>1,256</u>	<u>1,637</u>
Equity attributable to Partners of AAP			
Contributed equity	18	7,021	7,021
Reserves		(496)	(11)
Retained earnings	19	<u>(566)</u>	<u>(777)</u>
Total equity attributable to Partners of AAP		<u>5,959</u>	<u>6,233</u>
Equity attributable to Partners of PES			
Contributed equity	18	153	110
Retained earnings	19	<u>(22)</u>	<u>(9)</u>
Total equity attributable to Partners of PES		<u>131</u>	<u>101</u>
Total equity attributable to Partners of the Ausgrid Group		<u>7,346</u>	<u>7,971</u>

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 2019

	Contributed equity \$M	Cash flow hedge reserve \$M	Defined benefit superannuation surplus \$M	Retained earnings \$M	Total \$M
Balance at 1 July 2018	8,847	(11)	24	(889)	7,971
Profit for the year	-	-	-	162	162
Other comprehensive income					
Changes in fair value of cash flow hedges - AAP	-	(485)	-	-	(485)
Defined benefit superannuation actuarial losses - AOP	-	-	(8)	-	(8)
Total other comprehensive loss	-	(485)	(8)	-	(493)
Total comprehensive income/(loss) for the year	-	(485)	(8)	162	(331)
Transactions recorded directly in equity:					
Contributed equity	43	-	-	-	43
Distributions paid	-	-	-	(337)	(337)
Total transactions	43	-	-	(337)	(294)
Balance at 30 June 2019	8,890	(496)	16	(1,064)	7,346
Closing balance of equity attributable to					
AOP	1,716	-	16	(476)	1,256
AAP	7,021	(496)	-	(566)	5,959
PES	153	-	-	(22)	131
Balance at 30 June 2019	8,890	(496)	16	(1,064)	7,346

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 2019
(continued)

	Contributed equity \$M	Cash flow hedge reserve \$M	Defined benefit superannuation surplus \$M	Retained earnings \$M	Total \$M
Balance at 1 July 2017	8,737	52	23	(901)	7,911
Profit for the year	-	-	-	517	517
Other comprehensive income					
Changes in fair value of cash flow hedges - AAP	-	(63)	-	-	(63)
Defined benefit superannuation actuarial gains - AOP	-	-	1	-	1
Total other comprehensive income/(loss)	-	(63)	1	-	(62)
Total comprehensive income/(loss) for the year	-	(63)	1	517	455
Transactions recorded directly in equity:					
Contributed equity	110	-	-	-	110
Distributions paid	-	-	-	(505)	(505)
Total transactions	110	-	-	(505)	(395)
Balance at 30 June 2018	8,847	(11)	24	(889)	7,971
Closing balance of equity attributable to					
AOP	1,716	-	24	(103)	1,637
AAP	7,021	(11)	-	(777)	6,233
PES	110	-	-	(9)	101
Balance at 30 June 2018	8,847	(11)	24	(889)	7,971

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 2019

	2019	2018
Notes	\$M	\$M
Cash flows from operating activities		
Receipts from customers	2,440	2,426
Payments to suppliers and employees	(942)	(1,046)
Interest received	3	4
Interest paid	(434)	(429)
Net cash inflow from operating activities	1,067	955
27		
Cash flows from investing activities		
Payments for property, plant and equipment	(920)	(649)
Payments for intangibles	(106)	(53)
Proceeds from sale of property, plant and equipment	10	22
Acquisition of business combination, net of cash acquired	-	(165)
Net cash outflow from investing activities	(1,016)	(845)
3		
Cash flows from financing activities		
Equity injection from Partners	43	110
Proceeds from borrowings	230	6,071
Repayment of borrowings	-	(5,844)
Transaction costs paid	(14)	(46)
Finance lease payments	(3)	(2)
Distributions	(337)	(505)
Net cash outflow from financing activities	(81)	(216)
Net decrease in cash and cash equivalents		
	(30)	(106)
Cash and cash equivalents at the beginning of the year	217	323
Cash and cash equivalents at end of year	187	217

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



Contents of the notes to the consolidated financial statements

	Page
1. Summary of significant accounting policies	9
2. Changes in accounting policies	21
3. Business combination	22
4. Use of estimates and judgements	22
5. Revenue	24
6. Expenses	25
7. Taxation	26
8. Deferred taxation	27
9. Trade and other receivables and contract assets	27
10. Assets classified as held for sale	27
11. Property, plant and equipment	28
12. Intangible assets	30
13. Trade and other payables	32
14. Borrowings	32
15. Provisions	38
16. Other liabilities and contract liabilities	40
17. Derivatives	40
18. Partner capital	41
19. Retained earnings	42
20. Superannuation - Defined benefit plan	42
21. Key management personnel compensation	45
22. Remuneration of auditors	46
23. Capital expenditure commitments	46
24. Leases	47
25. Contingent liabilities and contingent assets	48
26. Group entities	49
27. Cash flow information	49
28. Financial risk management	50
29. Events occurring after the reporting period	58



1 Summary of significant accounting policies

This financial report is for the consolidated financial statements of the Ausgrid Group for the year ended 30 June 2019. The comparative period is from 1 July 2017 to 30 June 2018.

During the year, the Ausgrid Group's registered office and principal place of business has been changed from 570 George Street, Sydney NSW 2000 to 24-28 Campbell Street, Sydney NSW 2000.

Ausgrid Group is a stapled structure comprised of AOP, AAP and PES. Pursuant to the Partnership Deeds, all the Partners agreed to ensure equivalence in that the proportion of Partnership interest held by each Partner should be identical between AOP, AAP and PES.

For the purpose of preparing these consolidated financial statements only, AOP was identified as the parent of the consolidated group. AOP and its partnership entities, AAP and PES, were established on 20 October 2016 and 1 November 2017 respectively, on signing of the respective Partnership Deeds. A 50/50 consortium comprising IFM Investors and AustralianSuper holds 50.4% partnership interests and the NSW Government, (through various corporations established in accordance with the Electricity Retained Interest Corporation Act 2015 (NSW)), holds 49.6% partnership interests in AOP, AAP and PES.

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, Central Coast and Hunter regions of NSW and provides electricity services to both residential and commercial customers in NSW. The Ausgrid Group is registered as both a DNSP and a TNSP in the NEM which is regulated by the 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 NEL and NER. The Ausgrid Group distributes electricity on behalf of energy retailers to their customers within Ausgrid's distribution area. The retailers pay the Ausgrid Group for the provision of distribution services to their customers according to the regulated distribution tariff rates approved by the AER, and for related ancillary network services to the retailers' customers. As set out in Note 4, on 24 January 2019 the AER issued the Final Remade Decision for the 2014 - 2019 regulatory period, and on 30 April 2019, the AER issued the Final Determination for the 2019 - 2024 regulatory period.

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

(a) Basis of preparation

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

(i) Compliance with IFRS

The consolidated financial statements of the Ausgrid Group also comply with IFRS as issued by the IASB.

(ii) Historical cost convention

These financial statements are prepared on a historical cost basis, except for the following:

- derivative financial instruments which are stated at their fair value;
- defined benefit plan which is measured at fair value; and
- assets classified as held for sale which are stated at the lower of their carrying value or fair value less costs to sell.



1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Ausgrid Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(iv) Going concern

As at 30 June 2019, the Ausgrid Group has a net current liability of \$76 million (30 June 2018: \$28 million net current assets) due to restructuring provisions of \$110 million (refer to Note 15).

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

- The Ausgrid Group generated net operating cash inflows of \$1,067 million for the year ended 30 June 2019 (2018: \$955 million). Management estimate positive operating cash inflows for the Ausgrid Group for the next twelve months.
- The Ausgrid Group has available undrawn bank facilities of \$429 million as at 30 June 2019 (2018: \$669 million).
- According to the Partnership Deeds, each Partner is responsible for discharging the liabilities of the Partnerships in proportion with their respective Partnership interest, and indemnifies each other Partner from the default of aforementioned liabilities. Accordingly, the partners will provide continuing financial support so that the Ausgrid Group is able to pay its debts as and when they fall due.

Based on factors above, the financial report has 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 2019 and the results for the year ended 30 June 2019.

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

(c) Business combinations

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

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

(d) 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 AUD, which is the functional and presentation currency of each entity in the Ausgrid Group.



1 Summary of significant accounting policies (continued)

(d) Foreign currency translation (continued)

(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.

(e) 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) NUOS revenue

NUOS revenue represents the rendering of electricity distribution services to customers within the Ausgrid Group's distribution 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 capacity charge (if applicable). The Ausgrid Group typically bills retailers weekly and monthly. Revenue associated with unbilled services is recognised as described in unread meters below.

NUOS revenue includes three components: DUOS revenue, TUOS revenue and revenue to recover the Ausgrid Group's annual contribution to the NSW CCF. DUOS revenue relates to customer use of the Ausgrid Group's distribution network. TUOS revenue relates to customer use of the Ausgrid's Group's transmission network, and also includes revenue to recover transmission costs paid to 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 distribution revenues exceed or fall below the Ausgrid Group's 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 customers use of the Ausgrid Group's transmission network, and also includes revenue to recover transmission costs paid to TNSPs and embedded generators. Where such TUOS revenue exceeds or is below the 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.

(c) CCF revenue

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

1 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(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 balance date. The methodology used by the Ausgrid Group reflects a bottom up approach where an accrual is estimated for all unread meters within the Ausgrid Group's distribution area. The accrual is calculated for each component of the network price including peak, shoulder and off peak electricity consumption, capacity and network access charges.

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. From 1 July 2018, the unread meters accrual is classified as a contract asset in the statement of financial position.

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

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.

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 services revenue relates to the ongoing maintenance and replacement of street lighting assets. As the street lighting maintenance and services revenue is 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 revenue relates to non-routine connection and other ad hoc metering services provided to individual customers on an as need 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.

(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 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.



1 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(ix) *Unregulated revenue*

Unregulated revenue is made up of recoverable revenue, contestable revenue and other external revenue. Recoverable revenue is generated from works undertaken on the electricity network, at the request of a customer or other external party, which are not for the purpose of establishing a new or upgraded connection. Contestable revenue consists of unregulated metering revenue and other contestable works. Unregulated metering revenue represents the ongoing provision of metering services and metering data services for contestable meters (type 1 to 4 meters). Other contestable work relates to customer connection activity that can be performed by any accredited service provider. 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, chemical and oil testing, instrument calibration and high power testing of electrical equipment. 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.

(f) 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.

(g) Leases

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

(i) *Finance leases - as a lessee*

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

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

1 Summary of significant accounting policies (continued)

(g) Leases (continued)

(i) Finance leases (continued)

The property, plant and equipment under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Ausgrid Group will obtain ownership at the end of the lease term.

(ii) Operating leases - as a lessee

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

(iii) Operating leases - as a lessor

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

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

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

(h) Impairment of assets

Goodwill and indefinite life intangible assets are tested for impairment annually or whenever there is an indicator of impairment. Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's FVLCTS and 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 (CGU).

(i) 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.

(j) Trade receivables

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

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

(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.

1 Summary of significant accounting policies (continued)

(I) Property, plant and equipment

(i) Acquisition of assets

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

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

(ii) Historical cost method

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

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

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

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

(iii) Impairment assessment

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

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

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

(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(q).

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.

1 Summary of significant accounting policies (continued)

(l) Property, plant and equipment (continued)

(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. The estimated useful lives are as follows:

Categories	Useful life (years)
Buildings	40-60
Network assets:	
IT	4-10
Meters	10
Transmission and distribution equipment	35-50
Mains	45-60
Tunnels	70
Land	48-99
Plant and equipment:	
Meters	10
Plant	7
Fleet	10-15
Furniture	10
Office machines	7
IT hardware	1-4

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

(m) Intangible assets

(i) Goodwill

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

(ii) Computer software

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

(iii) Network assets

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

(iv) Customer contracts

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

1 Summary of significant accounting policies (continued)

(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 FVLCTS, 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

(i) Initial recognition and subsequent measurement

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

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

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

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

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

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

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

(a) Fair value hedges

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

(b) Cash flow hedges

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



1 Summary of significant accounting policies (continued)

(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 and are usually paid within 30 days of recognition.

(q) 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 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.

(r) 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 year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(s) 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 accrued portion of future benefits has been determined using the projected unit credit method. Consideration is given to expected future wage and salary levels, and a range of demographic assumptions including retirement, withdrawal, death and disability rates.

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



1 Summary of significant accounting policies (continued)

(t) Superannuation

(i) *Defined contribution plan*

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

(ii) *Defined benefit plan*

The Ausgrid Group participates in the 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.

The discount rate is the market yield on national corporate bonds as at 30 June 2019 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 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.

(u) Other liabilities

(i) *Deferred revenue*

Deferred revenue balance represents the advanced rental income received from the external tenants. In the prior year, deferred revenue also included customer prepayments for external, recoverable and contestable works carried out by the Ausgrid Group which was deferred pending completion of the works and services. In the current year, this has been reclassified to contract liabilities in accordance with AASB 15, refer to Note 2(b) and Note 16 for detailed contract liabilities recognised in the current year.

(ii) *Deposits*

Deposits represent liabilities for contractors' deposits which can be refunded at any time after the end of the financial year and unclaimed monies which are held up to six years before being transferred to 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.

(v) GST

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

1 Summary of significant accounting policies (continued)

(v) GST (continued)

The net amount of GST recoverable from, or payable to, the 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.

(w) Distributions

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

(x) Segment reporting

The CODM of the Ausgrid Group, 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:

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

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

(y) Rounding of amounts

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

(z) New accounting standards and interpretations

(i) *New standards and interpretations adopted*

The Ausgrid Group has adopted AASB 15 commencing on 1 July 2018. The impact of the adoption of AASB 15 is disclosed in Note 2.

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

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Ausgrid Group for the year ended 30 June 2019. The impact of these new standards or amendments to the standards and interpretations (to the extent applicable to the Ausgrid Group) is as follows:



1 Summary of significant accounting policies (continued)

(z) New accounting standards and interpretations (continued)

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

(a) AASB 16 (effective from 1 July 2019)

AASB 16 is applicable to the Ausgrid Group from 1 July 2019. The new standard requires nearly all leases to be recognised on the consolidated statement of financial position.

There will be no material impact to the consolidated statement of financial position or consolidated statement of profit or loss and other comprehensive income.

As at the reporting date, the Ausgrid Group has non-cancellable operating lease commitments of \$12 million (2018: \$24 million). Refer to Note 24 for further details.

2 Changes in accounting policies

(a) Impact of adoption - AASB 15

AASB 15 has been adopted from 1 July 2018. AASB 15 replaces AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. Under AASB 15, revenue is recognised when control of a good or service transfers to a customer. The Ausgrid Group adopted the modified retrospective transition approach and used the practical expedient for contracts completed before 1 July 2018. Under this approach, no restatement adjustments were required on adoption of the standard.

There is no change to the Ausgrid Group revenue recognition policy under the new standard, except for street lighting capital contributions, which will be deferred and recognised as revenue over the life of the asset.

In return for the street lighting capital contributions, which are ACS, the Ausgrid Group assumes an ongoing maintenance obligation to the customer who contributed the asset. Therefore the fair values of capital contributions from these specific customers are treated as contract liabilities and recognised over the period the ongoing maintenance services will be provided, i.e. the useful life of the asset contributed. The street lighting capital contributions recognised as a contract liability as at 30 June 2019 is \$10 million. The Ausgrid Group recognised \$14 million of upfront street lighting contributions revenue in the year ended 30 June 2018.

The remaining capital contributions received by the Ausgrid Group represent cash and non-cash capital contributions and are contributed mainly by developers, who are not ongoing customers of the Ausgrid Group. The accounting treatment of these SCS capital contributions (excluding street lighting contributions) to the Ausgrid Group's distribution network continues to be recognised at a point in time, when the connection to the network is completed.

Please refer to Note 5 for further details.

During the year, Ausgrid Group commenced rolling out an accelerated LED replacement program to the councils within the Ausgrid network area. Councils have the option to pay upfront or over time (i.e. annuity). As at 30 June 2019, the amount that councils have paid up-front at the time of installation of the LED Luminaire is \$6 million, which has been recognised as deferred revenue in accordance with AASB 15. This will be recognised as revenue when the ongoing provision of service and maintenance is satisfied, being over the life of the LED asset (10 years).

(b) Impact on financial statement disclosures

The Ausgrid Group is required to disclose contract assets and contract liabilities as detailed below:

- 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 asset balance primarily represents unread meters accruals, which was included in trade and other receivables in the prior year. Trade receivables are recognised when the right to consideration becomes unconditional.
- 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.



2 Changes in accounting policies (continued)

(b) Impact on financial statement disclosures (continued)

The following reclassifications were made to disclose contract assets and contract liabilities in accordance with AASB 15.

	30 June 2018 presentation \$M	AASB 15 reclassification \$M	1 July 2018 restated \$M
Current assets			
Trade and other receivables	426	(327)	99
Contract assets	-	327	327
Current liabilities			
Other current liabilities	8	(5)	3
Contract liabilities	-	5	5

3 Business combination

(a) Acquisitions during the year ended 30 June 2019

No business combinations have occurred during the year ended 30 June 2019.

(b) Acquisitions during the year ended 30 June 2018

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

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

On 30 November 2017, PES acquired 100% of the shares in Active Stream for \$60 million (GST exclusive) and acquired the associated metering assets for \$105 million (GST exclusive), for a total net cash consideration of \$165 million.

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

Accounting for the business combination is now complete. There was no further adjustments made as part of the finalisation of acquisition accounting.

4 Use of estimates and judgements

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

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

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

4 Use of estimates and judgements (continued)

Note 1(e)(iii) and 9 - Unread meters
Note 1(l) and 11 - Property, plant and equipment
Note 1(m) and 12 - Intangible assets
Note 1(r) and 15 - Provisions
Note 20 - Superannuation - Defined benefit plan
Note 28(f) - Recognised fair value measurements

During the year ended 30 June 2019, the following significant events have occurred that provide further information on the estimates and judgements disclosed in the 30 June 2018 financial report:

- On 1 November 2018, the AER issued the Draft Determination for the 2019 - 2024 regulatory period;
- On 8 January 2019, the Ausgrid Group submitted a Revised Proposal to the AER for the 2019 - 2024 regulatory period;
- On 24 January 2019, the AER issued the Final Remade Decision for the 2014 - 2019 regulatory period; and
- On 30 April 2019, the AER issued the Final Determination for the 2019 - 2024 regulatory period.

AER Final Determination 2019 - 2024

On 30 April 2019, the AER issued the Final Determination for the 2019 - 2024 regulatory period. The 2019 - 2024 regulatory period consists of the five financial years from 1 July 2019 to 30 June 2024. The AER Final Determination allows Ausgrid Group to recover \$7,703 million in revenue from customers over the 2019 - 2024 regulatory period. The AER Final Determination includes a total net capital expenditure forecast of \$2,638 million and operating expenditure forecast of \$2,324 million over the 2019 - 2024 regulatory period.

The final approved revenue allowance incorporates a reduction of \$329 million relating to over recovered revenue for the 2014 - 2019 regulatory period as a result of the AER's Final Remade Decision for the 2014 - 2019 regulatory period.

The final approved revenue allowance represents a \$2,615 million real reduction in total revenue compared to the 2014 - 2019 period actuals. The reduction in future revenues has resulted in an impairment of goodwill of \$348 million being recognised. The results of management's impairment are disclosed in Note 12(a).

In addition to the impairment recognised, the matters above caused management to reassess the Transformation Program which resulted in an addition to the restructuring provision being recorded during the year, refer to Note 15(b).



5 Revenue

	2019 \$M	2018 \$M
Revenue components		
DUOS	1,496	1,503
TUOS		
Pass-through	322	322
Non pass-through	207	183
CCF: Pass-through	99	152
NUOS	2,124	2,160
Transmission	54	49
SCS capital contributions	118	112
Other	3	6
Total SCS revenue	2,299	2,327
Street lighting	42	42
ANS	48	46
Metering	64	63
ACS capital contributions	-	17
Total ACS revenue	154	168
Unregulated revenue	142	117
Total unregulated revenue	142	117
Interest income	3	4
Total other revenue	3	4
Total revenue	2,598	2,616

Revenue of \$1,656 million (2018: \$1,531 million) is derived from Retailers that individually make up more than 10% of the Ausgrid Group's total revenue and relate to SCS revenue.



6 Expenses

(a) Distribution of energy costs

	2019 \$M	2018 \$M
SCS regulated pass-through costs		
TNSP	219	297
CCF	136	138
Total regulated pass-through costs	355	435
Unregulated energy costs	-	1
Total distribution of energy costs	355	436

(b) Operating expenses

(i) Operating expenses by nature

	2019 \$M	2018 \$M
Employee benefits expense	230	215
Superannuation expense (defined benefit plan)	6	8
Superannuation expense (defined contribution plan)	50	50
Reform costs	77	35
Employee benefits expenses	363	308
Contracted services	145	203
IT expenses	52	37
Materials	26	26
Land and other taxes	24	23
Acquisition costs	-	2
Operating lease rental	12	16
Other	19	13
Other expenses	278	320
Total operating expenses	641	628

(ii) Operating expenses by line of business

SCS	446	465
ACS	88	76
Unregulated	107	87
Total operating expenses	641	628



6 Expenses (continued)

(c) Depreciation and amortisation expense

	2019 \$M	2018 \$M
Depreciation of property, plant and equipment	527	486
Amortisation of intangible assets	66	64
Depreciation reclassification	-	(7)
Total depreciation and amortisation expense	593	543

(d) Finance costs

	Notes	2019 \$M	2018 \$M
Interest expense		445	433
Amortisation of loan transaction costs ¹		34	51
Unwinding of discount		3	4
Finance lease interest		2	2
Capitalised interest		(4)	(4)
Hedge ineffectiveness		3	(4)
Net gain on amend and extend of SFA ²	14	(6)	-
Other		1	-
Total finance costs		478	482

(1) Amortisation of loan transaction costs includes \$12 million relating to the write off of transaction costs in June 2019 arising from the early repayment of Facility B3 and partial repayment of Facility B2 (refer to Note 14).

(2) This is made up of a gain of \$7 million, offset by amortisation expense of \$1 million recognised during the year ended 30 June 2019.

7 Taxation

	2019 \$M	2018 \$M
Income tax recognised in other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Defined benefit superannuation actuarial losses/(gains)	4	(1)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Changes in the fair value of cash flow hedges	208	27
Total income tax recognised in other comprehensive income	212	26



8 Deferred tax assets/(liabilities)

	Defined benefit superannuation plan \$M	Cash flow hedge reserve \$M	Total \$M
Balance at 1 July 2017	(9)	(23)	(32)
Recognised in other comprehensive income	(1)	27	26
Balance at 30 June 2018	<u>(10)</u>	<u>4</u>	<u>(6)</u>
Recognised in other comprehensive income	<u>4</u>	<u>208</u>	<u>212</u>
Balance at 30 June 2019	<u>(6)</u>	<u>212</u>	<u>206</u>

9 Trade and other receivables and contract assets

	2019 \$M	2018 \$M
Current		
Trade receivables	72	108
Less: provision for impairment of trade receivables	(1)	(1)
Unread meters	-	297
Net trade receivables	<u>71</u>	<u>404</u>
Prepayments	<u>22</u>	<u>22</u>
Total current trade and other receivables	<u>93</u>	<u>426</u>
Contract assets		
Unread meters	294	-
Other	32	-
Total current contract assets	<u>326</u>	<u>-</u>

10 Assets classified as held for sale

	2019 \$M	2018 \$M
Land and buildings	4	10
Total assets classified as held for sale	<u>4</u>	<u>10</u>



11 Property, plant and equipment

	Land and buildings \$M	Network assets \$M	Plant and equipment \$M	Total \$M
At 30 June 2019				
At cost	796	16,702	510	18,008
Accumulated depreciation	(33)	(1,124)	(116)	(1,273)
Net carrying amount	763	15,578	394	16,735
Year ended 30 June 2019				
Net carrying amount at 1 July 2018	627	15,262	323	16,212
Additions	151	789	134	1,074
Disposals	-	(19)	(5)	(24)
Depreciation expense	(15)	(454)	(58)	(527)
Net carrying amount	763	15,578	394	16,735
At 30 June 2018				
At cost	645	15,939	384	16,968
Accumulated depreciation	(18)	(677)	(61)	(756)
Net carrying amount	627	15,262	323	16,212
Year ended 30 June 2018				
Net carrying amount at 1 July 2017	619	15,036	194	15,849
Business combination	-	-	105	105
Additions	29	672	81	782
Disposals	-	(14)	(4)	(18)
Assets classified as held for sale	(10)	-	-	(10)
Depreciation expense	(11)	(433)	(42)	(486)
Reclassifications	-	1	(11)	(10)
Net carrying amount	627	15,262	323	16,212

Assets under construction

At 30 June 2019, the assets under construction totalled:

Land and buildings	\$102 million (2018: \$37 million)
Network assets	\$541 million (2018: \$407 million)
Plant and equipment	\$53 million (2018: \$66 million)



11 Property, plant and equipment (continued)

Capital expenditure

	2019 \$M	2018 \$M
SCS capital expenditure		
Augmentation	29	18
Replacement	577	472
Connection	17	13
Reliability	6	2
Non-network and other	269	120
Total SCS capital expenditure	898	625
ACS capital expenditure		
Capital expenditure	52	48
Total ACS capital expenditure	52	48
Unregulated capital expenditure		
PES	103	4
Unregulated	6	29
Acquisition of Active Stream meters	-	105
Total Unregulated capital expenditure	109	138
Total capital expenditure¹	1,059	811

(1) Total capital expenditure amount of \$1,059 million is different to the total additions of property, plant and equipment of \$1,074 million and intangible assets of \$106 million (refer to Note 12). This variance of \$121 million (2018: \$129 million) comprises of capitalised capital contributions of \$127 million (2018: \$124 million), capitalised interest of \$4 million (2018: \$4 million), and reduction of property, plant and equipment resulting from the asset related provision movements of \$10 million (2018: \$1 million addition).

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

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

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

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

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

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

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



12 Intangible assets

	Network assets \$M	Customer contracts \$M	Computer software \$M	Goodwill \$M	Total \$M
At 30 June 2019					
At cost	1,687	5	363	2,135	4,190
Accumulated amortisation	(42)	(3)	(126)	-	(171)
Accumulated impairment	-	-	-	(348)	(348)
Net carrying amount	1,645	2	237	1,787	3,671
Year ended 30 June 2019					
Net carrying amount at 1 July 2018	1,662	3	181	2,135	3,981
Additions	-	-	106	-	106
Disposals	-	-	(2)	-	(2)
Impairment expense	-	-	-	(348)	(348)
Amortisation expense	(17)	(1)	(48)	-	(66)
Net carrying amount	1,645	2	237	1,787	3,671
At 30 June 2018					
At cost	1,687	5	258	2,135	4,085
Accumulated amortisation	(25)	(2)	(77)	-	(104)
Net carrying amount	1,662	3	181	2,135	3,981
Year ended 30 June 2018					
Net carrying amount 1 July 2017	1,678	-	164	2,075	3,917
Business combination	-	-	-	65	65
Additions	-	-	53	-	53
Finalisation of acquisition accounting	-	5	-	(5)	-
Reclassifications	-	-	10	-	10
Amortisation expense	(16)	(2)	(46)	-	(64)
Net carrying amount	1,662	3	181	2,135	3,981

Assets under construction

At 30 June 2019, the assets under construction for intangible assets related to computer software of \$49 million (2018: \$62 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 CGU. The Ausgrid Group has two CGUs, namely the NSP (comprising AAP and AOP) and PES.

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

In applying the FVLCTS approach, the recoverable amount of each CGU is assessed using a discounted cash flow methodology. The cash flow forecasts are based on the Board approved business plans up to 30 June 2024 and aligned to 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.



12 Intangible assets (continued)

(a) Impairment test of goodwill (continued)

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

Goodwill is allocated to CGUs as follows:

	2019 \$M	2018 \$M
NSP	1,722	2,070
PES	65	65
Total	1,787	2,135

(i) NSP CGU

As a result of the reduced future regulated revenue allowance per the AER Final Determination for the 2020 - 2024 regulatory period, refer to Note 4 for further detail, an impairment was recognised for the NSP. The NSP was impaired from its carrying value of \$20,210 million to its recoverable amount of \$19,862 million, resulting in an impairment charge of \$348 million (2018: \$nil). The key assumptions used in the discounted cash flow analysis were:

- Post-tax discount rate of 6.65% (2018: 7.50%);
- Terminal value RAB multiple of 1.2x for SCS and a multiple of 24.7x applied to ACS terminal year cash flows. In 2018, the terminal value was based on terminal year cash flow multiple of 20.5x for the entire NSP (i.e. no RAB multiple was applied);
- Growth rate of 2.5% (2018: 2.5%); and
- Cash flow horizon of 30 years (2018: 6 years). Cash flow forecasts include 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 regulator in the FY2020 - 24 regulatory period and expected future returns in years after FY24.

(ii) PES CGU

The PES CGU carrying value was supported by its recoverable amount and no impairment exists at 30 June 2019 (2018: \$nil). The key assumptions used in the discounted cash flow analysis were:

- Post-tax discount rate of 8.85% (2018: 8.85%);
- Growth rate of 3.0% (2018: 3.0%); and
- Cash flow horizon of 20 years (2018: 6 years). Cash flow forecasts include assumptions related to growth in revenue, operating expenditure and capital expenditure.

(b) Sensitivity to changes in assumptions

(i) NSP CGU

Had the NSP CGU applied a discount rate that was 5% higher or 5% lower than the 6.65% applied (i.e. 6.98% or 6.32%), the following fair values would have resulted:

Discount sensitivity	+5% \$M	Carrying value \$M	-5% \$M
NSP	\$18,691	\$19,862	\$21,131

Had the NSP CGU applied a RAB multiple rate that was 5% higher or 5% lower than the 1.2x applied (i.e. 1.26x or 1.14x), the following fair values would have resulted:



12 Intangible assets (continued)

(b) Sensitivity to changes in assumptions (continued)

(i) NSP CGU (continued)

RAB multiple sensitivity	-5% \$M	Carrying value \$M	+5% \$M
NSP	\$19,514	\$19,862	\$20,210

Had the NSP CGU applied an increase in the return on equity of 50 bps higher or 50 bps lower than the forecast return on equity increase applied of 220 bps by 1 July 2029 (i.e. increase of 170 bps or 270 bps), the following fair values would have resulted:

Return on equity sensitivity	-50 bps \$M	Carrying value \$M	+50 bps \$M
NSP	\$19,377	\$19,862	\$20,334

(ii) PES CGU

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

13 Trade and other payables

	2019 \$M	2018 \$M
Current		
Trade payables	58	86
Interest payable	110	99
Accruals	83	75
Other payables	41	41
Total current trade and other payables	292	301

14 Borrowings

	2019 \$M	2018 \$M
Current		
Finance lease liabilities	2	2
Total current borrowings	2	2
Non-current		
Finance lease liabilities	19	15
Total non-current finance lease liabilities	19	15
A\$ denominated interest bearing loans	6,462	6,238
A\$ denominated interest bearing notes	1,576	1,527
US\$ denominated interest bearing notes	3,912	3,424
EUR denominated interest bearing notes	1,115	1,035
Less: Transaction costs	(83)	(103)
Total loans and notes	12,982	12,121
14(a)		
Total non-current borrowings	13,001	12,136



14 Borrowings (continued)

SFA

On 9 October 2018, AFPL renegotiated its existing \$6,933 million SFA. \$3,764 million of SFA tranches were extended by two years at margins of 25 and 30 basis points below existing pricing. As a result of this amend and extend transaction, a gain of \$6 million is recognised (refer to Note 6(d)). This is made up of an accounting gain of \$20 million, comprising of the net present value of the reduction in future interest payments, offset by transaction costs of \$13 million, and \$1 million amortisation expenses recognised during the year.

ASF

On 2 July 2019, AFPL entered into a new ASF to borrow floating rate AUD denominated debt. This comprised of a seven year facility of A\$1,400 million and a ten year facility of A\$250 million. The proceeds from the transaction were used to fully repay Facility B3 of the existing SFA and partially repay Facility B2 of the SFA. \$16 million of associated transaction costs were paid on 1 July 2019 resulting from this transaction.

As a result, a \$12 million expense to write off transaction costs arising from the early repayment of Facility B3 and partial repayment of Facility B2 which has been recognised in 'Finance costs' in profit or loss (refer to Note 6(d)).

(a) Loans and notes

	Original drawdown ¹ \$M	Foreign exchange movements ² \$M	Fair value adjustments ³ \$M	Transaction costs \$M	Carrying value \$M
30 June 2019					
Fixed rate notes					
10 year US\$770M USPP	966	132	27	(5)	1,120
12 year US\$430M USPP	540	73	19	(4)	628
15 year US\$430M USPP	540	73	23	(5)	631
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	-	56	(5)	801
7.25 year EUR650M	1,037	17	61	(5)	1,110
5 year US\$500M 144A	659	54	30	(4)	739
10.25 year US\$500M 144A	659	54	63	(9)	767
	5,371	403	279	(39)	6,014
Floating rate notes and facilities					
15 year A\$100M USPP	100	-	-	(1)	99
7 year A\$450M AMTN	450	-	-	(1)	449
Facilities B1 to B5, C and D ⁴	6,468	-	(6)	(42)	6,420
	7,018	-	(6)	(44)	6,968
Total loans and notes	12,389	403	273	(83)	12,982

(1) The original 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 2019.



14 Borrowings (continued)

(a) Loans and notes (continued)

- (3) Fair value adjustment loss of \$273 million (2018: gain of \$116 million) is made up of a hedge accounting adjustment loss of \$279 million (2018: gain of \$116 million) due to interest rates movements, offset by a net gain on the SFA amend and extend of \$6 million (2018: nil).
- (4) The original drawdown of the SFA was \$11,931 million. This was reduced to \$6,468 million due to repayments of \$5,844 million, partially offset by additional drawdown of \$381 million.

	Original drawdown \$M	Foreign exchange movements \$M	Fair value adjustments \$M	Transaction costs \$M	Carrying value \$M
30 June 2018					
Fixed rate notes					
10 year US\$770M USPP	966	76	(60)	(6)	976
12 year US\$430M USPP	540	42	(37)	(4)	541
15 year US\$430M USPP	540	42	(40)	(5)	537
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	-	7	(7)	750
7.25 year EUR650M	1,037	(13)	11	(6)	1,029
5 year US\$500M 144A	659	17	-	(5)	671
10.25 year US\$500M 144A	659	17	3	(8)	671
	5,371	181	(116)	(43)	5,393
Floating rate notes and facilities					
15 year A\$100M USPP	100	-	-	(1)	99
7 year A\$450M AMTN	450	-	-	(1)	449
Facilities B1, B2, B3, C and D	6,238	-	-	(58)	6,180
	6,788	-	-	(60)	6,728
Total loans and notes	12,159	181	(116)	(103)	12,121



14 Borrowings (continued)

(a) Loans and notes (continued)

	Maturity	Facility limit \$M	Drawn \$M	Undrawn \$M	Rate in currency of issue ¹
30 June 2019					
10 year US\$770M USPP fixed rate	01 Oct 27	1,098	1,098	-	3.50%
12 year US\$430M USPP fixed rate	01 Oct 29	613	613	-	3.60%
15 year US\$430M USPP fixed rate	01 Oct 32	613	613	-	3.75%
10 year A\$29M USPP fixed rate	01 Oct 27	29	29	-	4.45%
12 year A\$103M USPP fixed rate	01 Oct 29	103	103	-	4.62%
15 year A\$88M USPP fixed rate	01 Oct 32	88	88	-	4.86%
15 year A\$100M USPP floating rate	01 Oct 32	100	100	-	BBSW+1.80%
Total USPP notes		2,644	2,644	-	
7 year A\$750M AMTN fixed rate	30 Oct 24	750	750	-	3.75%
7 year A\$450M AMTN floating rate	30 Oct 24	450	450	-	BBSW+1.22%
Total AMTN		1,200	1,200	-	
5 year US\$500M 144A fixed rate	01 May 23	713	713	-	3.85%
10.25 year US\$500M 144A fixed rate	01 Aug 28	713	713	-	4.35%
Total US144A notes		1,426	1,426	-	
7.25 year EUR650M fixed rate	30 Jul 25	1,053	1,053	-	1.25%
Total EMTN		1,053	1,053	-	
Term Facility B1 ²	01 Jun 22	917	917	-	BBSY+0.80%
Term Facility B2 ²	01 Dec 21	2,270	2,270	-	BBSY+1.35%
Term Facility B3 ²	01 Dec 23	900	900	-	BBSY+1.60%
Term Facility B4 ²	01 Dec 23	1,400	1,400	-	BBSY+1.05%
Term Facility B5 ²	01 Dec 25	600	600	-	BBSY+1.30%
Total term loans		6,087	6,087	-	
Capex Facility C ²	01 Jun 22	721	371	350	BBSY+0.80%
Working Capital Facility D ^{2,3}	01 Jun 22	125	10	115	BBSY+0.80%
Total liquidity		846	381	465	
Total⁴		13,256	12,791	465	

- (1) The rates listed are those that apply to each instrument in its respective currency of issuance. The BBSW/BBSY is a floating short term benchmark interest rate. BBSY is equivalent to BBSW plus a spread of 0.05%.
- (2) A\$ bank facility provided under the SFA.
- (3) The undrawn funds available under Facility D is \$79 million due to the utilisations of \$36 million in the form of bank guarantees that are not recognised as a liability. Refer to Note 25.
- (4) The Australian dollar weighted average cost of drawn debt for the year ended 30 June 2019, including interest on drawn debt and net payments under its CCIRS and IRS portfolios was 3.61% (2018: 3.54%).



14 Borrowings (continued)

(a) Loans and notes (continued)

	Maturity	Facility limit \$M	Drawn \$M	Undrawn \$M	Rate in currency of issue
30 June 2018					
10 year US\$770M USPP fixed rate	01 Oct 27	1,042	1,042	-	3.50%
12 year US\$430M USPP fixed rate	01 Oct 29	582	582	-	3.60%
15 year US\$430M USPP fixed rate	01 Oct 32	582	582	-	3.75%
10 year A\$29M USPP fixed rate	31 Oct 27	29	29	-	4.45%
12 year A\$103M USPP fixed rate	01 Oct 29	103	103	-	4.62%
15 year A\$88M USPP fixed rate	01 Oct 32	88	88	-	4.86%
15 year A\$100M USPP floating rate	01 Oct 32	100	100	-	BBSW+1.80%
Total USPP notes		2,526	2,526	-	
7 year A\$750M AMTN fixed rate	30 Oct 24	750	750	-	3.75%
7 year A\$450M AMTN floating rate	30 Oct 24	450	450	-	BBSW+1.22%
Total AMTN		1,200	1,200	-	
5 year US\$500M 144A fixed rate	01 May 23	676	676	-	3.85%
10.25 year US\$500M 144A fixed rate	01 Aug 28	676	676	-	4.35%
Total US 144A notes		1,352	1,352	-	
7.25 year EUR650M fixed rate	30 Jul 25	1,024	1,024	-	1.25%
Total EMTN		1,024	1,024	-	
Term Facility B1	01 Jun 20	917	917	-	BBSY+1.05%
Term Facility B2	01 Dec 21	3,670	3,670	-	BBSY+1.35%
Term Facility B3	01 Dec 23	1,500	1,500	-	BBSY+1.60%
Total term loans		6,087	6,087	-	
Capex Facility C	01 Jun 20	721	151	570	BBSY+1.05%
Working Capital Facility D	01 Jun 20	125	-	125	BBSY+1.05%
Total liquidity		846	151	695	
Total		13,035	12,340	695	



14 Borrowings (continued)

(b) Reconciliation of liabilities arising from financing activities

	1 July 2018	Cash flows	Non-cash changes				Net gain on amend and extend of SFA	30 June 2019
	\$M	\$M	Fair value adjustments \$M	Foreign exchange movements \$M	Amortisation \$M	Acquisition \$M	\$M	\$M
A\$ denominated interest bearing loans	6,238	230	-	-	-	-	(6)	6,462
A\$ denominated interest bearing notes	1,527	-	49	-	-	-	-	1,576
US\$ denominated interest bearing notes	3,424	-	296	192	-	-	-	3,912
EUR denominated interest bearing notes	1,035	-	50	30	-	-	-	1,115
Transaction costs	(103)	(14)	-	-	34	-	-	(83)
Finance lease liabilities	17	(3)	-	-	2	5	-	21
Total liabilities from financing activities	12,138	213	395	222	36	5	(6)	13,003

	1 July 2017	Cash flows	Non-cash changes				30 June 2018
	\$M	\$M	Fair value adjustments \$M	Foreign exchange movements \$M	Amortisation \$M	\$M	\$M
A\$ denominated interest bearing loans	11,930	(5,692)	-	-	-	-	6,238
A\$ denominated interest bearing notes	-	1,520	7	-	-	-	1,527
US\$ denominated interest bearing notes	-	3,362	(134)	196	-	-	3,424
EUR denominated interest bearing notes	-	1,037	11	(13)	-	-	1,035
Transaction costs	(108)	(46)	-	-	51	-	(103)
Finance lease liabilities	17	(2)	-	-	2	-	17
Total liabilities from financing activities	11,839	179	(116)	183	53	53	12,138



15 Provisions

	Employee benefits \$M	Restructuring \$M	Insurance \$M	Other \$M	Total \$M
Balance at 1 July 2018	285	93	20	74	472
Additional provision	192	88	12	11	303
Unwinding of discount	-	1	1	1	3
Amounts used	(148)	(61)	(5)	(10)	(224)
Amount reversed	-	(11)	-	(13)	(24)
At 30 June 2019	329	110	28	63	530
Current	280	110	10	20	420
Non-current	49	-	18	43	110
At 30 June 2019	329	110	28	63	530
Balance at 1 July 2017	282	134	20	73	509
Additional provision	166	9	3	7	185
Unwinding of discount	-	2	1	1	4
Amounts used	(159)	(52)	(3)	(5)	(219)
Amount reversed	(4)	-	(1)	(2)	(7)
At 30 June 2018	285	93	20	74	472
Current	254	72	5	20	351
Non-current	31	21	15	54	121
At 30 June 2018	285	93	20	74	472

(a) Employee benefits

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

All other 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. The non-current provision for employee benefits includes \$17 million relating to the defined benefit plan liability (2018: \$6 million). Refer to Note 20 for details.

(b) Restructuring

The Ausgrid Group is continuing its Transformation Program, which involves restructuring parts of the business. The Transformation Program will result in a significant reorganisation of functions, including a reduction in headcount. The restructuring provision reflects the costs of the employees for the period in which those employees are surplus to requirements from 30 June 2019 until they leave the organisation. The provision also includes the cost of redundancy payments expected to be made.

As a result of AER Final Determination 2019 - 2024 (refer to Note 4), an additional restructuring provision of \$80 million has been provided during the year.

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



15 Provisions (continued)

(c) Insurance

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

A bank guarantee is held for security and can be drawdown in the event of a default. Refer to Note 25 for details.

(d) Other

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

(i) Provision for site remediation

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

The provision as at 30 June 2019 was \$7 million (2018: \$14 million). The provision is the best estimate of the present value of the expenditure required to settle the obligation at the reporting date, based on current legal requirements and technology. Future costs are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period.

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

(ii) Provision for PCB disposal costs

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

The provision as at 30 June 2019 was \$21 million (2018: \$17 million). The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future disposal costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

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

(iii) Provision for costs relating to decommissioning assets

The provision to cover the expected future costs associated with decommissioning the Ausgrid Group's network assets as at 30 June 2019 was \$30 million (2018: \$40 million). Future costs are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period.

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

(iv) Provision for make good

The Ausgrid Group is required to restore a number of non-network leased premises to their original condition. A provision has been recognised for the amount payable in terms with the lease agreement. The provision as at 30 June 2019 was \$1 million (2018: \$4 million).

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



16 Other liabilities and contract liabilities

	2019 \$M	2018 \$M
Current		
Deposits	2	2
Deferred revenue	2	6
Total current other liabilities	4	8
Current contract liabilities		
Street lighting capital contribution	1	-
Other	3	-
Total current contract liabilities	4	-
Non-current contract liabilities		
Street lighting capital contribution	9	-
Other	6	-
Total non-current contract liabilities	15	-

17 Derivatives

	2019 \$M	2018 \$M
Non-current asset		
IRS	61	47
CCIRS	580	48
Total non-current derivative financial asset	641	95
Total derivative financial asset	641	95
Non-current liability		
IRS	(664)	(12)
CCIRS	-	(28)
Total non-current derivative financial liability	(664)	(40)
Total derivative financial liability	(664)	(40)
Net derivative financial (liability)/asset	(23)	55



18 Partner capital

	AOP		AAP		PES	
	Number	\$M	Number	\$M	Number ¹	\$M
30 June 2019						
Ordinary capital interest	504	865	504	3,538	3,856	77
A class capital interest	496	851	496	3,483	3,794	76
Total contributed equity	1,000	1,716	1,000	7,021	7,650	153

30 June 2018						
Ordinary capital interest	504	865	504	3,538	2,772	55
A class capital interest	496	851	496	3,483	2,728	55
Total contributed equity	1,000	1,716	1,000	7,021	5,500	110

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

On 31 October 2018, the Partners subscribed for an additional 2,150 million of partnership interests in PES (comprising of 1,084 million ordinary capital interests and 1,066 million A class capital interests) at \$0.02 per partnership interest, for a total of \$43 million.

(a) Partner capital

Ordinary capital interest

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

A class capital interest

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

(b) Partnership liability

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

(c) Distribution

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



18 Partner capital (continued)

(c) Distribution (continued)

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.

19 Retained earnings

	AOP \$M	AAP \$M	PES \$M	Total \$M
Balance at 1 July 2018	(103)	(777)	(9)	(889)
Profit/(loss) for the year	(168)	343	(13)	162
Distributions paid	(205)	(132)	-	(337)
Balance at 30 June 2019	(476)	(566)	(22)	(1,064)

Balance at 1 July 2017	(60)	(841)	-	(901)
Profit/(loss) for the year	217	309	(9)	517
Distributions paid	(260)	(245)	-	(505)
Balance at 30 June 2018	(103)	(777)	(9)	(889)

20 Superannuation - Defined benefit plan

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

(a) Nature of the benefits provided by the Fund

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

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

(b) Risk exposure

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

- Investment risk - The risk that investment returns will be lower than assumed and the Ausgrid Group will need to increase contributions to offset this shortfall.
- Longevity risk - The risk that pensioners live longer than assumed, 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.



20 Superannuation - Defined benefit plan (continued)

(b) Risk exposure (continued)

- Legislative risk - The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

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

(c) Reconciliation of the net defined benefit liability

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

	Present value of obligations \$M	Fair value of plan assets \$M	Total \$M
At 1 July 2018	352	(346)	6
Current service cost	6	-	6
Interest expense/(income)	14	(14)	-
Settlements	(14)	14	-
Defined benefit superannuation expense recognised in profit or loss	6	-	6
Contributions by the Fund participants:			
Employers	-	(7)	(7)
Plan participants	3	(3)	-
	3	(10)	(7)
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	-	(29)	(29)
Loss from change in liability experience	9	-	9
Loss from change in financial assumptions	32	-	32
Defined benefit superannuation actuarial losses/(gains) recognised in other comprehensive income	41	(29)	12
Benefits paid	(24)	24	-
Tax and expenses paid	(2)	2	-
	(26)	26	-
At 30 June 2019	376	(359)	17



20 Superannuation - Defined benefit plan (continued)

(d) Fair value of Fund assets

All Division B, C and D assets are held in Pool B of the Scheme. Pool B in turn holds units invested in the Energy Investment Fund, a pooled superannuation trust. As such, assets are not separately invested for each employer and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities, and the disclosures below relate to total assets of Pool B of the Scheme. Please refer to Note 28(f) for the detailed discussion on fair value hierarchy.

Asset category	Quoted price in active markets for identical assets		Significant observable input	Unobservable input
	Total \$M	Level 1 \$M	Level 2 \$M	Level 3 \$M
At 30 June 2019				
Energy Investment Fund	2,006	-	2,006	-
At 30 June 2018				
Energy Investment Fund	1,950	-	1,950	-

(e) Significant actuarial assumptions at the reporting date

Expected salary increase rate (excluding promotional increase)	2.25% pa (2018: 2.50% pa for 2018/19; 2.25% pa for 2019/20; and 2.50% pa thereafter)
Rate of CPI increase	2.30% pa for the five years from 1 July 2019, then 2.50% pa from 1 July 2024 (2018: 2.50% pa)
Discount rate	2.95% pa (2018: 4.16% pa)
Pensioner mortality	The pensioner mortality rates used are as per the triennial valuation of the Scheme as at 30 June 2018. The pension mortality rates are based on experience of the NSW public sector.



21 Key management personnel compensation

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

Non-Executive Directors

Dr Helen Nugent AO

Ashley Barker

Catharine Bowtell (resigned on 28 February 2019)

Michael Byrne

Michael Hanna

Belinda Gibson

Jason Peasley

Laura Reed

Robert Wright

Wendy Thorpe (appointed on 29 July 2019)

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

Key management personnel remuneration

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

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

	2019	2018
	\$	\$
Short-term employee benefits	9,185,571	9,291,939
Post-employment benefits	269,213	692,270
Long-term benefits	4,492,646	3,305,661
Termination benefits	-	1,415,576
	13,947,430	14,705,446



22 Remuneration of auditors

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

(a) PwC

(i) Audit and other assurance services

	2019 \$	2018 \$
Audit and review of financial statements	914,813	892,500
Other assurance services		
Audit of debt offering documents	-	986,000
Regulatory audit services	261,313	423,000
Accounting advice services	44,910	70,400
Total remuneration for audit and other assurance services	1,221,036	2,371,900

(ii) Other non-assurance services

Workshops and training services	-	289,000
Tax compliance services	70,000	225,000
Total remuneration for other non-assurance services	70,000	514,000

Total remuneration of PwC	1,291,036	2,885,900
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23 Capital expenditure commitments

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

	2019 \$M	2018 \$M
Within one year	293	315
Later than one year but no later than five years	-	6
	293	321



24 Leases

(a) Operating leases

(i) Lease commitments - leases as lessee

	2019 \$M	2018 \$M
Non-cancellable operating leases are payable as follows:		
Within one year	2	12
Later than one year but no later than five years	3	4
Later than five years	7	8
	12	24

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

The Ausgrid Group leases its passenger fleet and some light commercial fleet under operating leases. The majority of the fleet leases are fully maintained leases and typically run for a period of three or four years dependent on business requirements. All fleet leases will expire by December 2020.

(ii) Lease receivables - leases as lessor

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

	2019 \$M	2018 \$M
Within one year	7	7
Later than one year but no later than five years	4	8
Later than five years	5	4
	16	19

(b) Finance leases

(i) Lease commitments - leases as lessee

The Ausgrid Group has long term lease arrangements for land.

	2019 \$M	2018 \$M
Commitments in relation to finance leases are payable as follows:		
Within one year	2	2
Later than one year but no later than five years	10	8
Later than five years	99	84
Minimum lease payments	111	94
Future finance charges	(90)	(77)
Recognised as a liability	21	17



24 Leases (continued)

(b) Finance leases (continued)

(i) Lease commitments - leases as lessee (continued)

	2019	2018
	\$M	\$M
The present value of finance lease liabilities is as follows:		
Within one year	2	2
Later than one year but no later than five years	8	6
Later than five years	11	9
	21	17

(ii) Leased assets

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

	2019	2018
	\$M	\$M
Land and buildings	738	626
Network assets	15,672	15,358
Plant and equipment	9	15
Computer software	1	1
	16,420	16,000

25 Contingent liabilities and contingent assets

	2019	2018
	\$M	\$M
Contingent liabilities		
Guarantees provided to regulatory and statutory authorities	29	21
Guarantees provided to external parties	7	5
	36	26

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.



26 Group entities

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

Name of entity	Equity holding	
	2019	2018
	%	%
AAP	100	100
AMPL	100	100
AFPL	100	100
PES	100	100
PES 1	100	100
PES 2	100	100
Active Stream	100	100

27 Cash flow information

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

	2019	2018
	\$M	\$M
Profit for the year	162	517
Add/(less) non-cash items:		
Depreciation and amortisation	593	550
Impairment expense	348	-
Non-cash capital contributions	(117)	(124)
Amortisation of loan transaction costs	34	51
Capitalised interest	(4)	(4)
Interest accrual	10	2
Loss on disposal of property, plant and equipment	21	10
Unwinding of discount	3	4
Unwinding of government grants	(1)	(2)
Finance lease interest	2	2
Inventory provision	3	3
Hedge ineffectiveness	3	(4)
Net gain on amend and extend of SFA	(6)	-
Changes in assets and liabilities:		
Trade and other receivables	333	(21)
Inventories	(2)	(5)
Contract assets	(326)	-
Trade and other payables	(29)	19
Contract liabilities	9	-
Provisions	35	(38)
Other liabilities	(4)	(5)
Net cash inflow from operating activities	1,067	955

28 Financial risk management

(a) Financial risk management objectives and policies

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

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

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

The objective of the Ausgrid Group's financial risk management strategy is to protect Ausgrid Group's cash flows, profitability and reputation and maintain a minimum long term, standalone credit rating of bbb/baa2 (S&P, and/or Moody's Investor Services, and/or Fitch Rating Services). This includes the need to ensure that sufficient liquidity is available to fund its strategic business plans. Identification and analysis of relevant financial risks and 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 interest rates, energy prices and exchange rates.

(b) Credit risk

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

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

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

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

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

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



28 Financial risk management (continued)

(b) Credit risk (continued)

The loss allowance provision as at 30 June 2019 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
2019					
Expected loss rate	0.16%	1.62%	4.30%	20.76%	
Gross carrying amount (\$M)	383	9	3	3	398
Loss allowance provision (\$M)	(1)	-	-	-	(1)
Total	382	9	3	3	397
2018					
Expected loss rate	0.02%	1.42%	6.67%	40.00%	
Gross carrying amount (\$M)	388	13	2	2	405
Loss allowance provision (\$M)	-	-	-	(1)	(1)
Total	388	13	2	1	404

(c) Market risk

(i) Currency risk

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

The Ausgrid Group uses forward exchange contracts and CCRIS to hedge 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 US dollar and EUR denominated financial instruments designated in cash flow hedges.

	Impact on post-tax profit		Impact on other components of equity	
	2019	2018	2019	2018
	\$M	\$M	\$M	\$M
US\$/A\$ exchange rate - increase 10% ¹	-	(2)	19	15
US\$/A\$ exchange rate - decrease 10% ¹	-	4	(22)	(18)
EUR/A\$ exchange rate - increase 10% ¹	-	(3)	3	1
EUR/A\$ exchange rate - decrease 10% ¹	-	(2)	(4)	4

(1) Holding all other variables constant



28 Financial risk management (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Sensitivity (continued)

The Ausgrid Group has US dollar and EUR denominated 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)

	2019	2018
	\$M	\$M
Carrying amount (\$M)	372	171
Notional amount in USD (\$M)	2,630	2,630
	May 2023 - Oct	May 2023 - Oct
Maturity date	2032	2032
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	410	204
Change in value of derivative used to determine hedge effectiveness (\$M)	399	203
Weighted average hedge rate for the year	0.78	0.78

Derivative financial instruments - CCIRS (EMTN)

Carrying amount (\$M)	(9)	(33)
Notional amount in EUR (\$M)	650	650
Maturity Date	Jul 2025	Jul 2025
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	(24)	(22)
Change in value of derivative used to determine hedge effectiveness (\$M)	(20)	(21)
Weighted average hedge rate for the year	0.63	0.63

(ii) Cash flow and fair value interest rate risk

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

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

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

Instruments used by the Ausgrid Group

Swaps currently in place cover 97.9% (2018: 98.2%) of the variable loan principal outstanding.

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



28 Financial risk management (continued)

(c) Market risk (continued)

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

Instruments used by the Ausgrid Group (continued)

The Ausgrid Group used the corporate bond yield curve as at 30 June 2019 plus an adequate constant credit spread to discount financial instruments. As at the end of the reporting period, the Ausgrid Group had the following variable rate borrowings and IRS contracts outstanding:

2019	Weighted average interest rate %	Balance \$M	% of total loans
Bank overdrafts, bank loans and note issuances ¹	3.17	12,389	100.0%
IRS (notional principal amount) ²	2.21	12,133	97.9%
Net exposure to cash flow interest rate risk	2.13 - 3.63	<u>256</u>	2.1%

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

(2) Excludes forward starting swaps commencing post 30 June 2019

2018

Bank overdrafts, bank loans and note issuances	3.51	12,340	100.0%
IRS (notional principal amount)	2.18	12,115	98.2%
Net exposure to cash flow interest rate risk	3.20 - 3.91	<u>225</u>	1.8%

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

	2019		2018	
	Notional in AUD \$M	Notional swapped to fixed AUD via CCIRS/IRS \$M	Notional in AUD \$M	Notional swapped to fixed AUD via CCIRS/IRS \$M
A\$ denominated fixed rate liability	970	970	970	970
US\$ denominated fixed rate liability	3,364	3,364	3,558	3,558
EUR denominated fixed rate liability	1,037	1,037	1,024	1,024
A\$ denominated floating rate liability	7,018	6,762	6,788	6,563
	<u>12,389</u>	<u>12,133</u>	<u>12,340</u>	<u>12,115</u>

Net floating exposure: 2.1% (2018: 1.8%)

The Ausgrid Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. The Ausgrid Group has variable rate financial liabilities at year end. The Ausgrid Group's borrowings are 97.9% hedged (2018: 98.2%). A change in interest rates by one percentage point at reporting date would have an impact on the Ausgrid Group's profit or loss or equity as discussed below.

Sensitivity

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



28 Financial risk management (continued)

(c) Market risk (continued)

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

	Impact on post-tax profit		Impact on other components of equity	
	2019	2018	2019	2018
	\$M	\$M	\$M	\$M
Interest rates - increase by 100 basis points ¹	1	-	628	-
Interest rates - decrease by 100 basis points ¹	(1)	-	(671)	-

(1) Holding all other variables constant

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

Derivative financial instruments - IRS¹

	2019	2018
Carrying amount (\$M)	(609)	37
Notional amount (\$M)	16,657	13,548
	Jul 2018 - Jul	Jul 2018 - Aug
Maturity date	2028	2024
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	(606)	30
Change in value of derivative used to determine hedge effectiveness (\$M)	(606)	39
Weighted average hedge rate for the year (%)	2.30	2.24

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

Derivative financial instrument - CCIRS

	2019	2018
Carrying amount (\$M)	216	(123)
Notional amount (\$M)	4,803	4,399
	May 2023 - Oct	May 2023 - Oct
Maturity date	2032	2032
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	216	(123)
Change in value of derivative used to determine hedge effectiveness (\$M)	209	(122)
Weighted average hedge rate for the year (%)	3.23	3.61

(d) Capital risk management

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

An appropriate capital structure considering the following criteria:

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

28 Financial risk management (continued)

(d) Capital risk management (continued)

- Provision of sufficient flexibility for relevant contingencies.

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

(e) Liquidity risk

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

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

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

(i) *Maturities of financial liabilities*

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

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

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



28 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
2019							
Non-derivatives							
Trade payables	292	-	-	-	-	292	292
Borrowings	237	199	412	7,654	7,487	15,989	12,982
Finance leases	1	1	2	8	99	111	21
Total non-derivatives	530	200	414	7,662	7,586	16,392	13,295
Derivatives							
IRS net settled	40	66	135	286	119	646	(603)
CCIRS gross settled							
- inflow	68	58	112	1,009	4,294	5,541	580
- (outflow)	(122)	(100)	(222)	(1,322)	(5,076)	(6,842)	-
Total derivatives	(14)	24	25	(27)	(663)	(655)	(23)
	516	224	439	7,635	6,923	15,737	13,272
2018							
Non-derivatives							
Trade payables	301	-	-	-	-	301	301
Borrowings	118	199	1,509	5,433	6,855	14,114	12,121
Finance leases	1	1	2	6	84	94	17
Total non-derivatives	420	200	1,511	5,439	6,939	14,509	12,439
Derivatives							
IRS net settled	1	(13)	(2)	109	127	222	35
CCIRS gross settled							
- inflow	44	67	147	439	627	1,324	20
- (outflow)	(42)	(77)	(171)	(624)	(1,032)	(1,946)	-
Total derivatives	3	(23)	(26)	(76)	(278)	(400)	55
	423	177	1,485	5,363	6,661	14,109	12,494



28 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.

2019	Notes	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Recurring fair value measurements					
Derivatives	17	-	(23)	-	(23)
Total		-	(23)	-	(23)
Non-recurring fair value measurements					
Assets classified as held for sale	10	-	4	-	4
Total		-	4	-	4
2018					
Recurring fair value measurements					
Derivatives	17	-	55	-	55
Total		-	55	-	55
Non-recurring fair value measurements					
Assets classified as held for sale	10	-	10	-	10
Total		-	10	-	10

(g) Recurring fair value measurements

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

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

(h) Non-recurring fair value measurements

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



28 Financial risk management (continued)

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

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

(i) Fair value versus carrying amount

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

	Notes	2019		2018	
		Carrying amount \$M	Fair value \$M	Carrying amount \$M	Fair value \$M
Financial assets carried at amortised cost					
Cash and cash equivalents		187	187	217	217
Trade and other receivables (excluding prepayments)	9	71	71	404	404
Contract assets	9	326	326	-	-
Total financial assets		584	584	621	621
Financial liabilities carried at amortised cost					
Borrowings	14	12,982	13,882	12,121	12,285
Finance lease liabilities	14	21	21	17	17
Trade and other payables	13	292	292	301	301
Deposits	16	2	2	2	2
Total financial liabilities		13,297	14,197	12,441	12,605

29 Events occurring after the reporting period

On 2 July 2019, AFPL entered into a new ASF to borrow floating rate AUD denominated debt. This comprised of a seven year facility of A\$1,400 million and a ten year facility of A\$250 million. The proceeds from the transaction were used to fully repay Facility B3 of the existing SFA and partially repay Facility B2 of the SFA. \$16 million of associated transaction costs were paid on 1 July 2019 resulting from this transaction.

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



In the Directors' opinion:

- (a) the consolidated financial statements and notes, as set out on pages 2 to 58 are in accordance with the Partnership Deeds, and:
 - (i) comply with Accounting Standards as described in Note 1 to the consolidated financial statements and other mandatory professional reporting requirements;
 - (ii) give a true and fair view of the entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Ausgrid Group will be able to pay its debts as and when they become due and payable.

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

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

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

A handwritten signature in blue ink, appearing to read "Helen M. Nugent".

Dr Helen Nugent AO
Director

26 August 2019

A handwritten signature in black ink, appearing to read "Robert Wright".

Robert Wright
Chairman Audit Committee

26 August 2019



Independent auditor's report

To the partners of Ausgrid Group

Our opinion

In our opinion the accompanying financial report gives a true and fair view of the financial position of Ausgrid Group as at 30 June 2019 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 (PES) and the respective entities that they controlled at year end or from time to time during the financial year.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2019
- 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 a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

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

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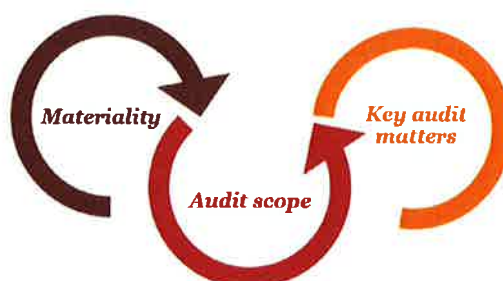
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Our audit approach

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

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



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit we used overall materiality of \$42 million, which represents approximately 2.5% of the Ausgrid Group earnings before interest, tax, depreciation and amortisation (EBITDA), adjusted for impairment expense and reform costs. 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. 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. The Group has operations across Sydney, the Central Coast and Hunter regions within New South Wales, with the accounting functions led from the Group's corporate head office in Sydney and Wallsend in Newcastle. The Group is made up of 2 cash generating units. AOP & AAP and the entities they control, represent the Network Service Provider ("NSP") CGU and PES and the entities it controls represents the PES CGU (as detailed in Note 12a). We conducted an audit of the financial information of NSP and PES given their financial significance to the Group. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee: <ul style="list-style-type: none"> Goodwill impairment assessment of the NSP CGU Borrowings and associated derivatives These are further described in the <i>Key Audit Matters</i> section of our report.



Key audit matters

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

Key audit matter

How our audit addressed the key audit matter

Goodwill impairment assessment of the NSP CGU

Refer to Note 12

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

Due to recent AER Final Remade Decision 2014 – 2019 and AER Final Determination 2019 – 2024 (as described in Note 4) impacting the underlying cash flows in the forecast periods, the Group identified indicators of impairment in the NSP CGU during the year. An impairment charge of \$348 million was recognised against NSP goodwill as a result of the Group's impairment assessment.

The Group performed an impairment assessment over goodwill by calculating the fair value less costs of disposal for the NSP CGU, using a discounted cash flow model (the model).

We considered the impairment assessment to be a key audit matter due to:

1. the size of the goodwill balance
2. the judgements required by the Group in assessing whether an impairment was required. Key judgements used in the model included discount rates, terminal growth rates and the assumption that there will be an increase in AER equity return in the future regulatory periods.

We performed the following procedures amongst others:

- Assessed whether the Group's identification of CGUs, which are the smallest identifiable groups of assets that can generate largely independent cash inflows, was consistent with our knowledge of the operations and with management's internal reporting.
- Tested on a sample basis, the mathematical accuracy of the model.
- Evaluated the cash flow forecasts in the model and developed our understanding of the process by which they were prepared. We satisfied ourselves that the forecast cash flows used in the model was consistent with the most up-to-date corporate business plan approved by the Board for FY20-FY49 (NSP).
- Evaluated the Group's historical ability to forecast future cash flows by comparing budgets with reported actual results for past financial periods.
- Assessed whether the discount rate used in the model appropriately reflected the risks of the CGU by performing a shadow weighted average cost of capital (WACC) discount rate calculation.
- Compared terminal growth rates used by the Group to economic and industry forecasts.
- Considered the Group's sensitivity analysis on the key assumptions used in the model (discount rates, terminal growth rate, cash flow variability, regulatory rate of return) to assess under which assumptions an impairment may occur and whether this was reasonably possible.
- Considered relevant recent market transactions as a cross check against the valuation outcomes.
- Evaluated the adequacy of the disclosures made in Note 12, including those regarding the key assumptions and sensitivities to changes in such assumptions, in light of the requirements of Australian Accounting Standards.



Key audit matter

How our audit addressed the key audit matter

Borrowings and associated derivatives

Refer to Note 14 'Borrowings' and Note 17 'Derivatives'

The Group had \$13,003 million of borrowings at 30 June 2019. The accounting for the Group's borrowings was considered a key audit matter due to:

1. the borrowings being the largest non-current liability in the statement of financial position
2. the impact of amendments to existing loan agreement and subsequent refinancing post year end to existing borrowings and capitalised borrowing costs balances.

The Group completed multiple refinancing transactions in the prior year. A range of derivatives were established to hedge foreign exchange and interest rate risk of the borrowings. The derivatives established are considered to be significant due to the large notional values, composition of cross currency and interest rate swaps and the long time to maturity. The valuation of derivatives at financial year end and hedge accounting required additional audit attention.

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

- Obtained confirmations directly from the Group's banks and private lenders to confirm the outstanding balance and key terms of borrowings and derivatives at balance date.
- Read the most up-to-date agreements between Ausgrid Finance Pty Limited and its financiers to develop an understanding of the changes to key terms of borrowings.
- Assessed the accounting treatment of the capitalised borrowing costs arising from new arrangements and borrowing costs related to renewed facilities.
- Obtained an understanding of the relevant covenants, assessed the Group's forecast compliance assessment and considered the covenant headroom available.
- Where debt was classified as non-current, we considered the Group's assessment that the treatment is consistent with the requirements of Australian Accounting Standards.
- For a sample of swap contracts, we agreed critical terms in the contracts, such as payment terms, interest rates, and start and end dates to the details recorded in the Group's Treasury Management system.
- For a sample of derivatives, we compared the Company's valuation to credit spreads, interest rate curves and the revaluation reports.
- Assessed the hedge accounting calculations and journals with respect to the requirements of Australian Accounting Standards.
- Evaluated whether the disclosures were consistent with the requirements of Australian Accounting Standards.

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 PES as required under the Partnership Deeds dated 20 October 2016 (AOP and AAP) and 1 November 2017 (PES). As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the partners of Ausgrid Group.

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 2019, 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.

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: http://www.auasb.gov.au/auditors_responsibilities/ar5.pdf. This description forms part of our auditor's report.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Brett Entwistle' in a cursive style.

Brett Entwistle
Partner

Sydney
26 August 2019



Glossary

AAP	Ausgrid Asset Partnership
AASB	Australian Accounting Standards Board
AASB 3	AASB 3 Business Combinations
AASB 8	AASB 8 Operating Segments
AASB 15	AASB 15 Revenue from Contracts with Customers
AASB 16	AASB 16 Leases
AASB 111	AASB 111 Construction Contracts
AASB 118	AASB 118 Revenue
ACS	Alternative Control Services
Active Stream	Active Stream Pty Limited
AER	Australian Energy Regulator
AFPL	Ausgrid Finance Pty Limited
AMTN	Australian Medium Term Note
AMPL	Ausgrid Management Pty Limited
ANS	Ancillary network services
AOP	Ausgrid Operator Partnership
ASF	Asian Syndicated Facility
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AUD	Australian dollars
Ausgrid Group	AOP (parent entity), AAP, PES and their respective controlled entities
BBSW/BBSY	Bank Bill Swap Rate
Blue AAP	Blue Asset Partner Trust
Blue AOP	Blue Op Partner Trust
Blue PES	Blue PES Partner Trust
Bps	Basis points
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

Glossary (continued)

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
FY	Financial year
FVLCTS	Fair value less cost to sell
GST	Goods and services tax
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IRS	Interest rate swaps
IT	Information Technology
LED	Light-emitting diode
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
PES	Plus ES Partnership
PES 1	Plus ES Management 1 Pty Limited
PES 2	Plus ES Management 2 Pty Limited
PwC	PricewaterhouseCoopers Australia
RAB	Regulated Asset Base
S&P	S&P Global Ratings
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



Glossary (continued)

TNSP	Transmission Network Service Provider
TUOS	Transmission use of system
USPP	US Private Placement
VIU	Value in use