Ausgrid

Debt Investor Presentation

JULY 2020

Ausgrid Better Together

ausgrid.com.au

Presenters

Richard Gross

Chief Executive Officer

- Richard has over 30 years of experience in the energy and infrastructure sectors and has previously held senior executive roles at CitiPower, PowerCor and Wellington Electricity
- His experience includes managing acquisitions and mergers, advising on and implementing regulatory strategies, leading high-performance teams and championing the interests of both providers and consumers in a rapidly changing environment
- Richard has successfully led major business transitions, including integrating billion-dollar businesses. He is also a leader and trusted advisor in the operation of utilities, with decades of experience in asset management, asset risk management, valuation drivers, market dynamics and acquisitions

Michael Bradburn

Chief Financial Officer

- Michael has more than 20 years of experience in financial, commercial planning and audit roles across a range of industry sectors
- Prior roles include CFO Viva Energy Australia, CFO Brisbane Airport Corporation and senior financial and commercial roles at Asciano and predecessor Patrick Corporation
- Chartered Accountant (CA ANZ), Chartered Certified Accountant (ACCA), Graduate of Australian Institute of Company Directors and holds a Master of Business Administration from AGSM and a Bachelor of Business

Edwin Waters

Group Treasurer

- Ed has more than 20 years of experience in banking and financial markets focusing on Capital Markets, Debt Origination, Structuring and Analytics
- Ed's previous position was Executive Director Debt Capital Markets at ANZ Banking Corporation (9 years), where he was responsible for advising issuers on domestic and offshore capital markets issues, including in the utility and infrastructure sectors
- Earlier roles have included a variety of analytical and structuring responsibilities for Westpac Institutional Bank (7 years)

Craig Wilson

Sustainability Manager

- Craig has more than 15 years of experience in strategy, commercial, regulatory and sustainability roles mainly within the electricity and rail industries
- Craig’s previous sustainability experience with Asciano required significant input into the design and implementation of Australia’s carbon scheme and associated policies and regulations
- With an MBA, a degree in International Business, and previous training as a reserve officer in the Australian Army, he has international experience in several different industries and roles

Ausgrid Better Together

Agenda

1	About Ausgrid
2	Operations and performance
3	Strategic priorities and transformation
4	Impact of COVID-19, regulation and financial performance
5	Capital management and funding
A	Supporting materials

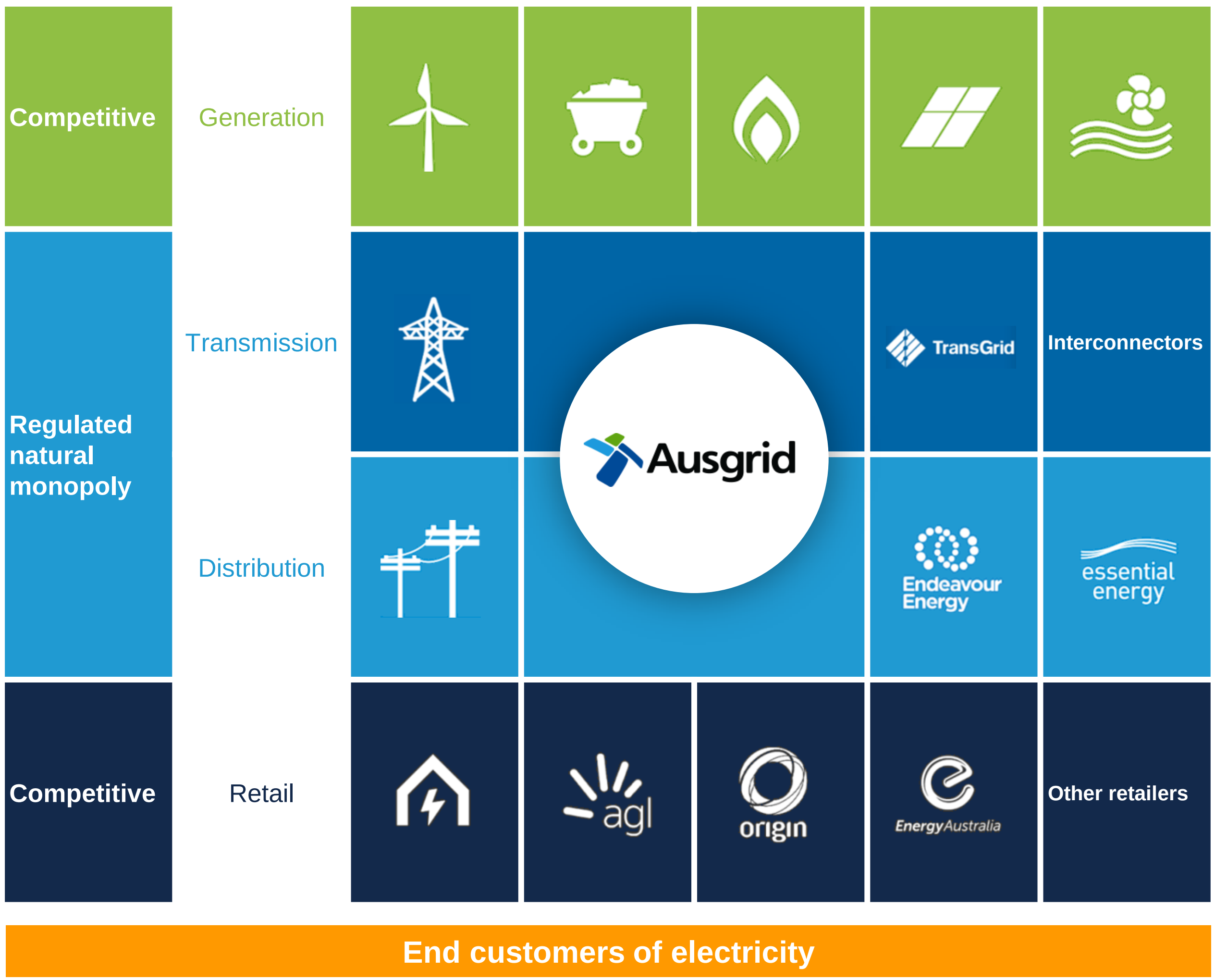
Better Together

Ausgrid's investment highlights

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

1 Stable, regulated natural monopoly – no material COVID-19 impact	✓ Long-life essential infrastructure with stable, **inflation-protected cash flows** ✓ Regulated revenues are **insulated from volume exposure** through the revenue cap regulatory regime providing revenue certainty ✓ The AER has made a final revenue determination for Ausgrid that allows for clear and predictable revenue over five years, from 1 July 2019 to 30 June 2024 ✓ **95% of revenues** are regulated ✓ The impact of COVID-19 on electricity consumption and Ausgrid's regulated revenues is temporary in nature, with the revenue cap regulatory regime allowing Ausgrid to recover any revenue under-recovery in future years
2 Nationally significant infrastructure	✓ Natural monopoly position in franchisee area within the State of NSW – **no competition** for transportation of electricity within Ausgrid's existing network ✓ Core infrastructure servicing Sydney and parts of NSW – the **most populous state** in Australia ✓ Australia is one of the few remaining AAA economies with **28 consecutive years of GDP growth** (prior to COVID-19)
3 Experienced leadership	✓ Culture change and transition to new executive leadership with a **significant safety focus** ✓ Productivity improvements and operational savings from the Transformation Program driving a sustainable reduction in opex
4 Capital management and shareholder support	✓ Credit ratings of **Baa1** from **Moody's** and **BBB** from **S&P** (both stable outlook) and prudent approach to capital management (Ausgrid's Treasury Policy and Partnership Deed requires that Ausgrid use reasonable endeavours to maintain a bbb/baa2 baseline credit assessment) ✓ Shareholders, Board and management are committed to maintaining these credit ratings – shareholder support evidenced by Board decision to reinvest dividends to support the business ✓ Strong liquidity position of $614 million as at 30 June 2020. No debt maturities until December 2021 ✓ No covenant pressure with headroom against key thresholds ✓ $12.6 billion drawn debt with gearing of 76% net debt/RAB and **$8.7 billion of acquisition equity value**

Ausgrid's position in the NSW electricity supply chain



Ausgrid network

- Includes c.230 large substations
- 32,000 small distribution substations
- More than 500,000 power poles and 49,000 kilometres of below and above-ground electricity cables

	FY20[1]
Regulated asset base	$16.1 billion
Network GWh	24,957
Customers	1.8 million
Revenue	$2.3 billion
Operating expenditure	$563 million
Capital expenditure	$682 million
Employees	3,142

Note: 1. FY20 numbers are unaudited and subject to revision

Ausgrid’s network area

Ausgrid’s core business is building, extending, maintaining and operating the electricity distribution and transmission network in Ausgrid’s supply area, spanning **22,275 square kilometres** including eastern Sydney, the Central Coast and the Hunter Valley.

Ausgrid’s network extends past the Barrington Tops in the north to Waterfall in the south, and from Merriwa in the west to Newcastle in the east.

Ausgrid’s network supplies electricity to: **1.8 million** customers | **200,000** businesses | **1,200** schools | **105** hospitals | **5** universities

Ownership and governance arrangements

Governance

- Ausgrid has been **majority owned by AustralianSuper and IFM Investors** (together 50.4%) since 2016
- The NSW Government holds the remaining 49.6% through a specially created entity and indirect subsidiaries which are **independent from Government**
- AustralianSuper and IFM Investors have a **right of first offer** in relation to any further sell down by the NSW Government
- **Statutory independence**, with state partner entities not subject to control or direction from the NSW Government
- In general, Board decisions can be made by **ordinary majority** (and AustralianSuper / IFM Investors appointed directors comprise an ordinary majority)
- Matters requiring unanimous decision are limited to matters such as constitutional amendments and dissolution/disposal of the business
- The NSW Government cannot divest its holding **without enacting further enabling legislation**

AustralianSuper

25.2% ownership
>$180 billion AUM

- **Managed on behalf of more than 2.3 million members**
- Australia's **largest industry superannuation fund**
- Large-scale, long-term infrastructure investor - approved mandate to invest in meaningful core infrastructure assets
- Over $18 billion of infrastructure investments
- Experienced infrastructure investor with assets including:
  - **Utilities** (Anglian Water in the UK)
  - **Ports** (Port of Brisbane, NSW Ports, Mersin International Port in Eastern Mediterranean, GCT Global Container Terminals in Canada)
  - **Roads** (Transurban Queensland, Westconnex, Indiana Toll Road in the US, M6 Toll in Europe, Aleatica in Europe and Latin America)

ifm investors

25.2% ownership
>$168 billion AUM

- **Across infrastructure, listed equities, private capital and debt**
- One of the world's **largest owners and managers of nationally critical infrastructure assets**
- Manages over $68 billion of direct infrastructure investments globally
- Proven track record of transitioning infrastructure assets from government to private ownership
- Experienced infrastructure investor with assets including:
  - **Utilities** (Wyuna Water, Colonial Pipeline in the US, Arqiva Limited in the UK, Anglian Water in the UK)
  - **Airports** (Melbourne Airport, Brisbane Airport, Perth Airport, Adelaide Airport, NT Airports)
  - **Ports** (Port of Brisbane, NSW Ports)

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3 Strategic priorities and transformation

4 Impact of COVID-19, regulation and financial performance

5 Capital management and funding

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Ausgrid's revenue streams

Ausgrid has four distinct revenue streams which align to the regulatory framework

Ausgrid

Network Service Provider

Ring-fencing regulation

REGULATED – 95% of revenue[2]

Standard Control Services – 88% of revenue
revenue cap regulation

- Price and volume regulated
- Network services (transmission and distribution of electricity to customers through Ausgrid's 'poles and wires' network)
- Augmentation of the network
- Type 7 metering services

Alternative Control Services – 7% of revenue
price cap regulation

- Price regulated
- Type 5-6 metering provision, reading, data services, transfer administration services and unrecovered meter costs
- Ancillary Network Services (mostly facilitating new connections, disconnections and reconnections to the network)
- Public lighting (managing street lights on behalf of councils, community groups and government associations)

UNREGULATED – 5% of revenue[2]

Unregulated
market price

- Facility access (licencing the use of Ausgrid pole space, fibre and duct by telecommunication carriers, IoT service providers, councils and government agencies as well as modular data centres)
- Property rental (leasing out spare floor space in Ausgrid property)

PLUS ES[1]
market price

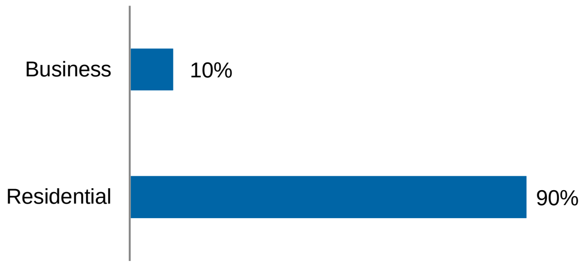
- Smart (Type 1-4) metering services (meter installation and maintenance, data services provided to electricity retailers, C&I businesses and embedded network operators)
- Telecommunication infrastructure services (design and construction of mobile small cells and connecting fibre on power infrastructure for telecommunication companies)
- Electrical infrastructure services under development (design, construction and maintenance of high voltage infrastructure, calibration and testing of high voltage assets for C&I businesses, state governments and power network businesses)

Notes:
1. PLUS ES was founded by integrating Ausgrid's existing metering business with the AGL digital metering subsidiary acquired by Ausgrid in November 2017;
2. Revenue breakdown is based on FY20 numbers which are unaudited and subject to revision

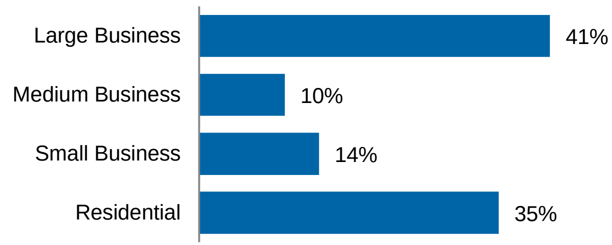
Customer profile

Ausgrid has a large and diverse end customer base with low concentration risk

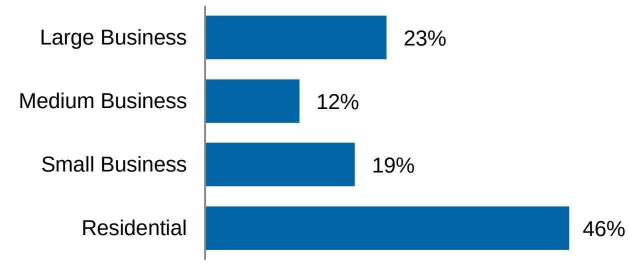
End customer type



Annual consumption



NUOS revenue



Overview

- 1.8 million end customers in FY20, representing almost half of the electricity customer connections in NSW
- Large business customers (i.e. customers > 750MWh p.a.) accounted for 23% of network revenue in FY20
- Diversified customer base – the largest customer accounts for <1% of network revenue
- Key retailers for Ausgrid are AGL (Baa2), EnergyAustralia (BBB+) and Origin Energy (Baa2/BBB)
- Credit terms with retailers and the regulatory regime allows for recovery in the event of retailer insolvency

Top 10 end customers with individually calculated tariff

No.	Customer	NUOS revenue (%) [1]
1	Sydney Trains (NSW Government)	0.8%
2	Yancoal Australia	0.4%
3	Sydney Airport	0.3%
4	Molycop	0.3%
5	Global Switch Data Centres	0.2%
6	Orica Botany Industrial Park	0.2%
7	Port Waratah Coal Services	0.2%
8	Glencore Coal Assets Australia	0.2%
9	Australian Navy – Garden Island	0.1%
10	Orora Limited	0.1%
Total		**2.8%**

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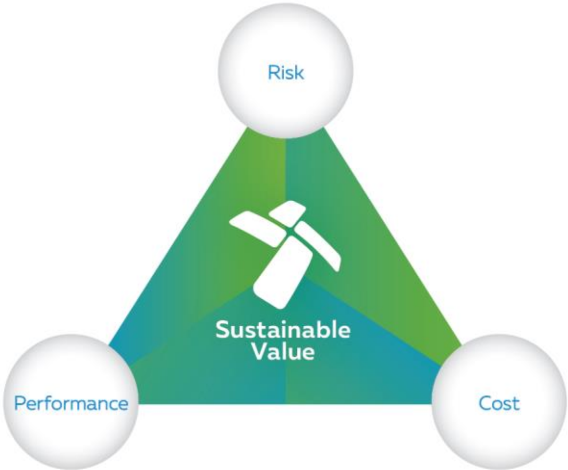
Notes: 1. Percentage of total NUOS revenue for the year ended 30 June 2020

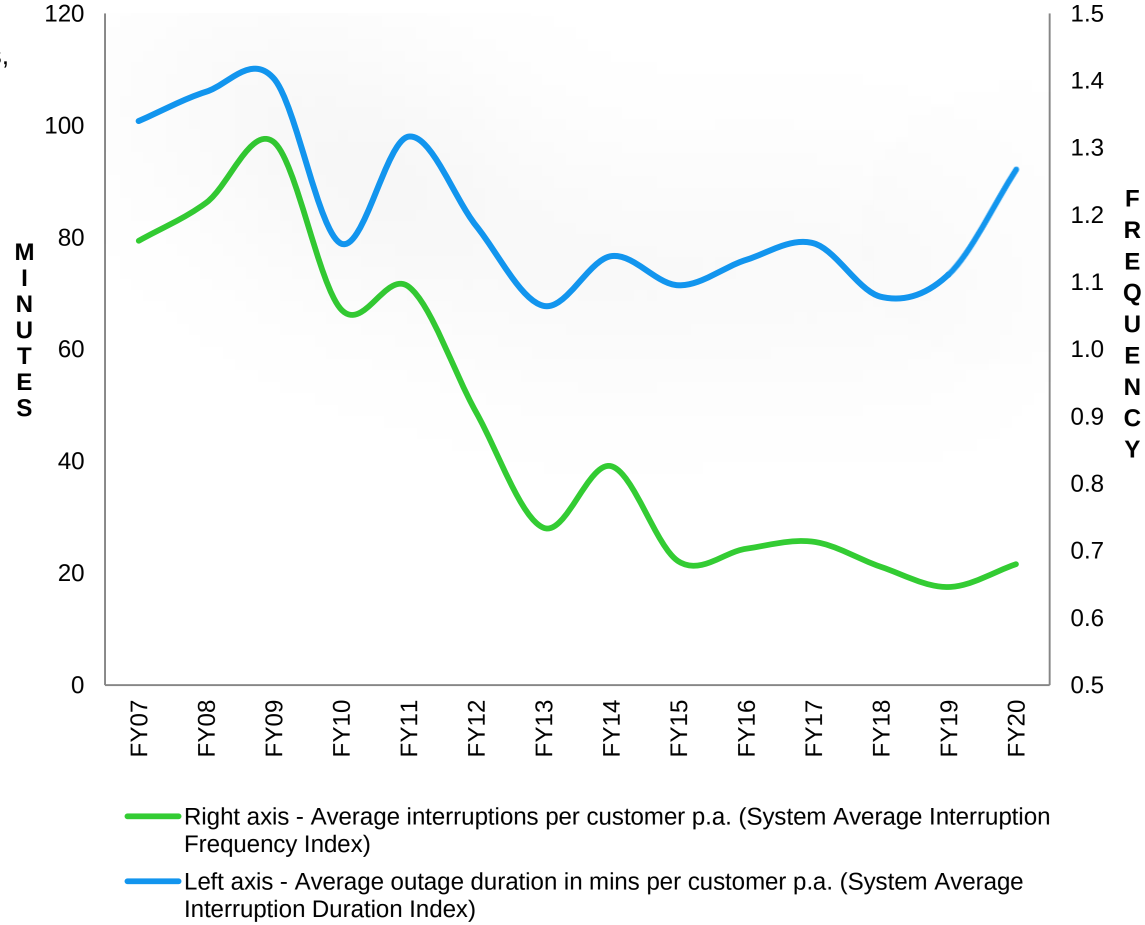
Asset management – 'whole of life' approach

Sustainably improving performance for customers, stakeholders and partners while complying with regulatory obligations

Achieving asset management objectives through:

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





Peer RAB and customer base comparison

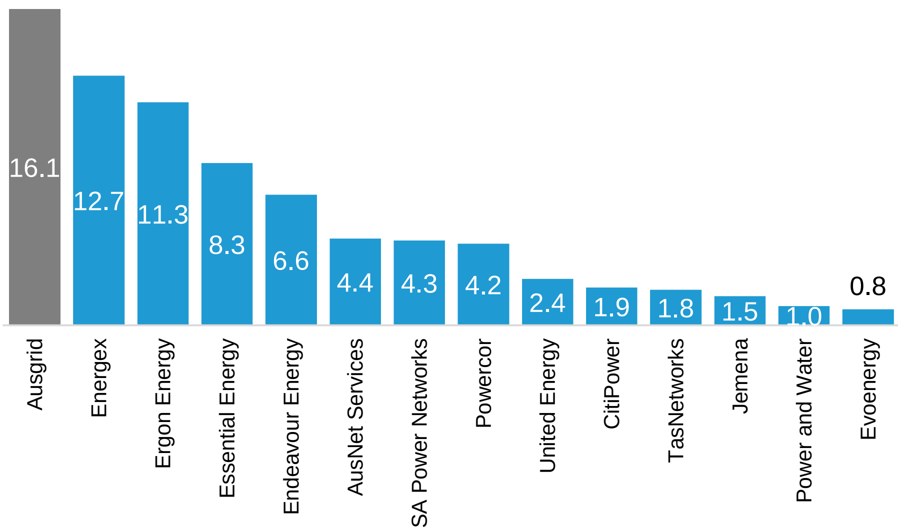
Largest distribution network in Australia by RAB, end customer numbers, electricity delivered and maximum demand

Snapshot

- Ausgrid's network has distributed electricity within NSW for over 100 years
- 1.8 million end customers[2] and 24,957 GWh of electricity transported in FY20
- Total RAB of $16.1 billion as at 30 June 2020

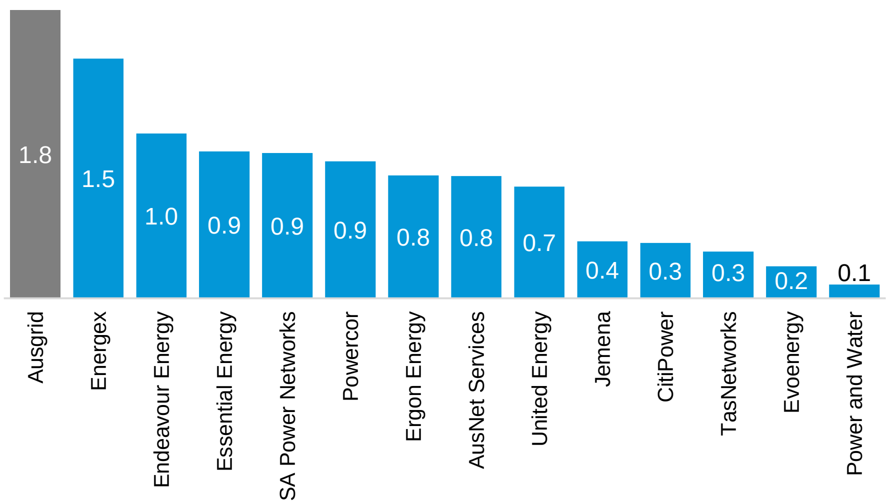
RAB of distribution networks in the NEM ($2019 bn)[1]

Largest RAB of any other network in the NEM



Customers of distribution networks in the NEM (million)[1,2]

More customers than any other network in the NEM



Source: AER State of the Energy Market – Data Update – June 2020

Notes:

1. Customer numbers, line length and asset base as at 30 June 2019 except for Ausgrid which is as at 30 June 2020 (31 December 2019 for Victorian businesses);
2. Represents total residential, government, commercial and industrial customers

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Sustainability at Ausgrid

Our sustainability approach

Sustainability at Ausgrid means operating in a safe, responsible manner that will enable us to deliver affordable, reliable and clean energy choices to our customers now and in the future.

Our material sustainability focus areas that are most important to our stakeholders and have the most impact on Ausgrid are:

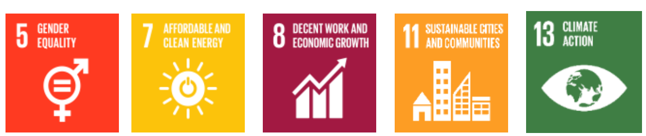
- Health and safety
- Emerging technologies
- Network resilience
- Cyber and physical security
- Customers and communities
- Affordability
- Inclusion and diversity

Our journey so far

Our vision to become a leading energy solutions provider, recognised both locally and globally, is the compass for our sustainability initiatives.

Major milestones achieved in the last year to set the foundation for our way ahead include:

- Increasing focus on reporting, investigating, and implementing corrective actions related to High Potential Incidents
- Launching our internal emissions reduction targets
- Publishing our Climate Change Statement
- Publishing our Energy Charter Report
- Publishing our Global Reporting Initiative compliant Sustainability Report on our FY19 performance
- Aligning Ausgrid to five of the United Nations Sustainable Development Goals (these five are represented by the icons below)



Our developing ambitions

Key actions underway to further mature our sustainability response include:

- Developing our Health and Safety Strategic Roadmap and continued rollout of the Return to Live Work program
- Further developing and communicating our response to climate change
- Developing our community engagement program and exploring innovative ways to use our assets for additional public benefit
- Developing our Modern Slavery Statement to communicate our actions to address any risks
- Developing our Sustainability Policy
- Continuing to publish on an annual basis our Global Reporting Initiative compliant Sustainability Report and Energy Charter Report that is transparent and to develop trust
- Communicating our response to COVID-19 and how we are keeping our employees and communities safe

More detail and reports on our sustainability performance can be found on our website, and in the Supporting Materials of this presentation

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Strategic priorities – FY20 performance

Substantial progress has been made in FY20 to accelerate the delivery of Ausgrid's strategic priorities

Strategic priority	FY20 achievements
Live our values	• We continue to increase our focus on reporting, investigating and implementing the corrective actions related to High Potential Incidents • Injury frequency rates have declined significantly compared to prior year. As at 30 June 2020: – Total Recordable Injury Frequency Rate was 6.5. This represents a 22% improvement compared to the June 2019 TRIFR of 8.3 – The Lost Time Frequency Rate was 1.2. This represents a 29% improvement compared to the June 2019 LTIFR of 1.7
Transform the way we work	• FY20 Restructure delivered two months ahead of schedule • Continued reduction in non-labour costs including vegetation management contract renegotiations • Reduction in the size of our fleet by 250 vehicles, reducing vehicle maintenance and running costs by $1 million per annum
Foster community trust	• Established a number of collaborative working groups with customers on key issues such as community batteries, cyber security and tariff reform • Formation of a Customer Transformation Team to accelerate the customer strategy • Evolving Ausgrid's services to meet customer needs including contact channel mapping, segmentation analysis, and journey mapping • Developed Ausgrid's first carbon emissions target and Climate Change Statement. Progressed key sustainability initiatives such as community bush regeneration • Delivered an electrical safety education program to almost 800 schools
Shape our future	• First Virtual Power Plant trial commenced • Community battery feasibility study completed, moving into pilot phase • Term sheet for eight modular datacentre sites signed with Leading Edge DC. Development planning commenced with Newcastle Council for their first site on Ausgrid land • Signed agreement with Jolt EV for electric vehicle charging/advertising from distribution kiosks
Grow PLUS ES	• In spite of COVID-19, PLUS ES has installed 152,238 meters in FY20 (6% above budget), with a meter population of 684,348 on 30 June 2020 • Successful implementation of S/4HANA has allowed PLUS ES to lock-in efficiencies leading to a reduction of FTE's in FY20

Strategic priorities – looking ahead

Ausgrid's vision is to be recognised locally and globally as a leading energy solutions provider. Our key priorities for FY21 and beyond are outlined below

Strategic priority	Actions
Live our values	• Promotion and maintenance of a strong safety culture and safety performance • Operational improvements for safety
Transform the way we work	• Streamlining processes in operations and back-office • Continuously improving customer experience through web and contact centre services enhancement • Core focus on business productivity enhancements through people, process, information and technology-enabled ways of working across operations and back-office processes – refer to following page for further details
Foster community trust	• Improve our customer service and reputation with key stakeholder and customer groups • Achieving favourable regulatory outcomes, through actively influencing customers, communities, policy makers, regulators and key stakeholders
Shape our future	• Promoting the uptake of Distributed Energy Resources (including electric vehicles) • Taking a leadership role in tariff reform • Using the Taskforce on Climate-related Financial Disclosure Framework to address climate change impacts • Bolstering our storm response protocols and developing a resilience capex uplift plan
Grow PLUS ES	• Continue to scale in the growing metering market including data services • Pursuing modest growth opportunities in electrical and telecommunications infrastructure • Delivering operational excellence – right first time, every time

Transformation Program

Comprehensive program to deliver first quartile cost efficiencies while improving customer, operational and safety outcomes

Objectives	• **Improve the customer experience:** Better understand our customers' needs and deliver a better service experience through a programme of continuous improvement in our engagement channels and underlying service delivery • **Establish a culture of staff empowerment:** Change the ways of working across Ausgrid to tap the potential of our skilled workforce, through localised decision-making ability and accountability for continuous improvement within parameters of controlled risk • **Reduce operating costs:** Right-size the workforce and shape the organisation to be a flatter organisation with the frontline closer to the CEO • **Reduce work volumes:** Make better use of data to balance cost, risk and performance in the planning of work, so we prioritise work that drives the greatest improvement in risk and performance outcomes, whilst sustaining the overall condition of our asset base • **Improve non-labour productivity:** Pursue cost efficiencies across all non-labour categories, balanced with the sustainability procurement objectives including total cost of ownership, environmental, social and government factors
Scope	• Programs running from FY20 to FY24, designed to streamline processes and find more effective ways of conducting business through a series of people, process and technology improvements: Operations; Customer; Supply Chain; and Enabling Services
Progress	• The Transformation Program has already contributed to a 28% reduction in regulated SCS opex from $545 million in FY16 to $393 million in FY20 (excluding reform costs) • FY20 transformation delivered successfully and ahead of schedule. 362 FTEs released following the FY20 Restructure. This exceeded the FY20 Business Plan target by 63 FTE and was delivered two months ahead of schedule due to our transparent consultation • Continued reduction in non-labour costs (such as vegetation and fleet costs). Fleet size reduced by 250 vehicles, reducing vehicle maintenance and running costs by $1 million per annum • Majority of savings for FY21 have already been locked in with limited delivery risk. Focus on increasing delivery certainty for future year opex targets via end-to-end process focus, transformation operating model enhancement and embedding change activities
Outcomes	• New customer centric organisational structure in place • FY21 savings have been agreed and targets 'locked in' to budgets • The Transformation Program will be phased to consciously balance workforce reductions with employee engagement and technology implementation

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2019-24 Final Determination

The AER determines the maximum revenues that Ausgrid can earn over a five year regulatory period through a building-block methodology. Ausgrid's revenue cap regulatory regime provides revenue certainty

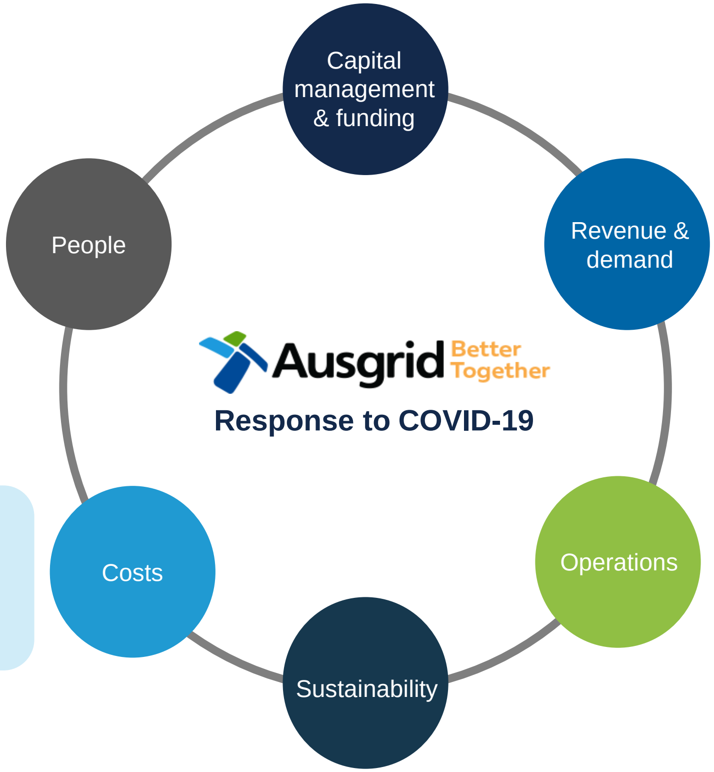
($million, nominal)	FY20	FY21	FY22	FY23	FY24	Total
Return on capital	897	910	917	918	917	**4,559**
Regulatory depreciation	103	134	164	193	193	**787**
Operating expenditure	474	486	499	513	528	**2,500**
Efficiency carryover	19	20	20	21	21	**101**
FY15-19 remittal adjustment	(329)	-	-	-	-	**(329)**
Corporate income tax	28	23	26	29	26	**132**
Building block revenue	**1,193**	**1,573**	**1,627**	**1,674**	**1,685**	**7,752**
Smoothed revenue	**1,506**	**1,517**	**1,537**	**1,559**	**1,585**	**7,704**

Building blocks	Description
Return on capital	A return (nominal, post-tax) on the assets deployed in the provision of regulated services, with this return being commensurate with the efficient financing costs of a benchmark efficient entity with a similar degree of risk
Regulatory depreciation	Recoupment of the straight-line depreciation of the RAB, calculated by reference to the value of assets used for the delivery of regulated services and their economic life
Operating expenditure	The costs of operating and maintaining the distribution network
Efficiency carryover (incentive schemes and other adjustments)	A CESS revenue reward due to capex underspend over FY15-19. In the FY25-29 period, Ausgrid will also be able to earn a revenue reward through the EBSS if it underspends opex over FY20-24
FY15-19 remittal adjustment	A one-off negative revenue adjustments relating to over-recovered revenue in the FY15-19 period. This was unusually large given the prior revenue determination was not finalised until the final year of the five year regulatory period. This delay was caused by a disagreement between the prior owners of Ausgrid (NSW Government) and the AER
Corporate income tax	An amount that reflects the corporate income tax obligations of a benchmark network service provider

COVID-19 impact and management response

Ausgrid moved early to address the onset of the COVID-19 pandemic, with the activation of its internal Incident Management and Crisis Teams in early January to implement Ausgrid's Pandemic Response Plan

- Moody's and S&P have recently affirmed Ausgrid's credit ratings of Baa1 (Stable) and BBB (Stable)
- Shareholder support for Ausgrid evidenced by decision to reinvest dividends for FY20, FY21 and FY22
- Strong liquidity position of $614 million as at 30 June 2020



People
- Ausgrid's people and the public have been our number one priority during COVID-19
- Significant proportion of workforce shifted to working from home arrangements
- On-line employee development activities implemented to ensure continuation of mandatory training and compliance activity

Revenue & demand
- FY20 regulated revenue impacted due to reduced non-residential energy consumption
- Ausgrid's regulated revenues are **insulated from volume risk** under the revenue cap regulatory regime

Costs
- Sharpened focus on business transformation to deliver long term operating and financial benefits
- Deploying operational levers to reduce cost base
- Accelerated transformation program

Operations
- Crisis management and emergency response protocols deployed
- Customer centric focus:
  - bill relief for households and small businesses enduring hardship
  - deferral of non-essential maintenance to reduce disruption

Sustainability
- First Sustainability Report published during COVID-19
- Dedicated to environmental protection and execution of our environmental programs
- Climate change activities relating to emissions reduction, bushfire season preparations and managing storm events have continued during this period

Impact of COVID-19 on Ausgrid's network

Actual energy consumption data on Ausgrid's network indicates a recent stabilisation from the initial COVID-19 volume reduction of ~10% in April 2020. The increase in residential consumption and the decrease in commercial and industrial load largely offset each other

Observations *(weekday and weekend data)*	**Volume Mix**	**COVID-19 Impacts** *(Pre vs. Post, mid-April)*[1]	**COVID-19 Impacts** *(mid-Jul)*[2]	**Comments**
Ausgrid overall	**100%**	**-10%**	**+2.1%**	COVID-19 impact on commercial and industrial segments is being offset by increased residential demand
Residential	33%	+6%	+15%	Residential consumption above FY19 resulting from school holidays and travel restrictions
Large businesses	30%	-22%	-13%	Large and medium customers are showing slow signs of recovery
Medium businesses	8%	-25%	-11%	
Small businesses	6%	-25%	-7%	Small business consumption is showing stronger signs of recovery with week-on-week improvement since mid-April
Others: High voltage and sub-transmission	23%	-13%	-17%	High voltage customers remain impacted, notably in selected industry sectors such as mining

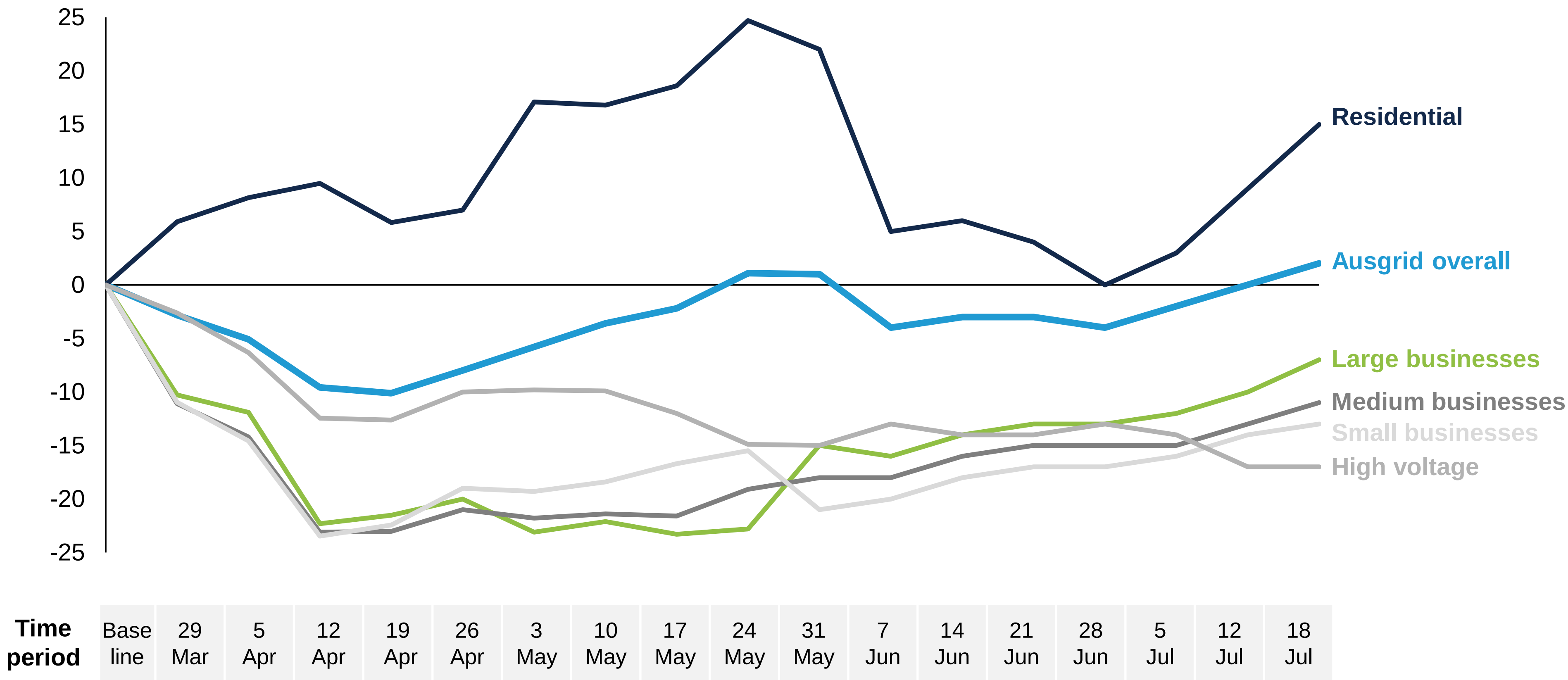
Notes:

1. Comparison of two weeks pre-COVID-19 baseline with four weeks post COVID-19 ending on 19 April, using comparable days with similar weather patterns
2. 14 day rolling average against the same period in FY19. This allows us to moderate for time of year effects and monitor each customer and industry segment as they recover at varying pace

Impact of COVID-19 on Ausgrid's network

Following sharp energy consumption movements at the end of March, the effects of COVID-19 are currently pointing towards a recovery. The residential spike started to ease off when schools returned and more people returned to workplaces. Small, medium and large businesses have shown signs of recovery since the start of June

Actual consumption variation compared to baseline by key segments[1]
(%)



1. Analysis from the week ending 29 March to the week ending 26 April compared actual consumption against a fixed baseline of days in March before restrictions were in place. From the week ending 3 May the baseline was updated to be a 14 day rolling average of the same period in FY19, i.e. the average demand of 14 days in April 2020 are compared to the average demand of the same 14 days in April 2019. This methodology allows us to moderate for time of year effects over a longer period of analysis

Financial summary

FY20 is the first year of the new five year regulatory period

Statement of profit or loss

$million, nominal	FY19	FY20[1]	Variance
Revenue			
SCS	2,299	2,015	(284)
ACS	154	153	(1)
Unregulated	142	121	(21)
Total revenue	**2,595**	**2,289**	**(306)**
Expenses			
SCS	(376)	(393)	(17)
ACS	(81)	(103)	(22)
Unregulated	(107)	(67)	40
Total SCS, ACS and unregulated	**(564)**	**(563)**	**1**
Pass-through costs	(355)	(397)	(42)
Loss on disposal of PPE	(21)	(10)	11
Total operating expenses	**(940)**	**(970)**	**(30)**
EBITDA	**1,655**	**1,319**	**(336)**
Depreciation and amortisation	(593)	(639)	(46)
Finance costs	(478)	(478)	-
Interest income	3	2	(1)
Impairment expense	(348)	-	348
Reform costs	(77)	(12)	65
Profit for the year	**162**	**192**	**30**

Key highlights

- SCS revenue fell by $284 million in FY20 due to a reduction in Ausgrid's Maximum Allowable Revenue (**MAR**) following the AER Determination. This was primarily due to the lower risk free rate and market risk premium within the regulatory WACC (refer page 43 for further details)
- The reduction in unregulated revenue of $21 million was primarily a result of the reclassification of activities from unregulated to ACS. This was offset within ACS by lower demand for ancillary network services due to COVID-19 and lower prices for metering and public lighting services from FY20 following the AER Determination
- Operating expenses remained stable in total. Higher SCS opex was primarily due to abnormal storm activity experienced during FY20, which is subject to a regulatory pass-through process, and is forecast to be recovered in FY22
- A goodwill impairment expense of $348 million was recognised in FY19 in response to the AER Determination, which included a reduction in the regulatory rate of return. No impairment has been recognised in FY20
- Reform costs in the profit or loss in FY20 were lower and represent the exit payments that were not provided for in FY19

Notes: 1. FY20 numbers are unaudited and subject to revision. Audited accounts are expected to be available on 28 August 2020

Agenda

1 About Ausgrid

2 Operations and performance

3 Strategic priorities and transformation

4 Impact of COVID-19, regulation and financial performance

5 Capital management and funding

A Supporting materials

Capital management strategy

Ausgrid is committed to supporting its current credit ratings and has a prudent capital management strategy to support this. Ausgrid has a proven track record of taking action to support its credit ratings

1 Capital management strategy

- Ausgrid has a $12.6 billion debt portfolio and is committed to prudent capital management
- Investment grade credit ratings are a core part of Ausgrid's capital management strategy
- Ausgrid is rated Baa1 by Moody's (implied baa2 on a standalone basis) and BBB (bbb standalone) by S&P (both stable)
- The Moody's rating currently includes a one notch uplift due to the implied support of all three shareholders, i.e. not just the NSW Government

2 Commitment to support credit ratings

- The Board, shareholders and management have a strong commitment to maintain the current credit profile
- Ausgrid's Treasury Policy and Partnership Deed requires that Ausgrid use reasonable endeavours to maintain a bbb/baa2 baseline credit assessment and not less than bbb-/baa3
- Ausgrid has a range of levers available to support credit ratings – these include both operational (e.g. cost efficiency, capex program selection and timing etc.) and capital management levers (e.g. investment decisions, dividends, equity related funding etc.)

3 Distribution policy

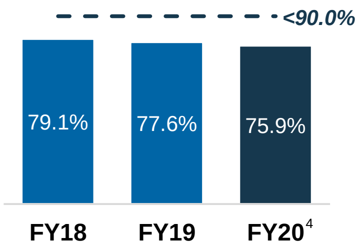
- Under the Partnership Deeds, each Partnership must distribute at least 85% of its surplus cash within 30 days of the end of each quarter – so long as paying this distribution will not cause the baseline credit assessment to fall below investment grade
- Ausgrid has a proven track record of taking action to support the credit ratings – Board and Shareholders have decided to reinvest dividends for the three years to June 2022

Credit metrics

Ausgrid has headroom against key metric thresholds. Moody's and S&P have also recently reaffirmed Ausgrid's BBB/Baa1 credit ratings (both stable outlook) on 5 June and 29 June 2020 respectively

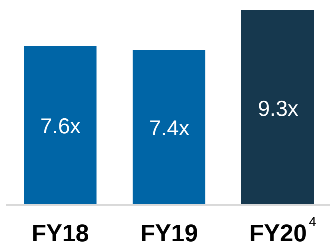
Leverage

Net debt[1] / RAB



Bank covenant: <90.0%

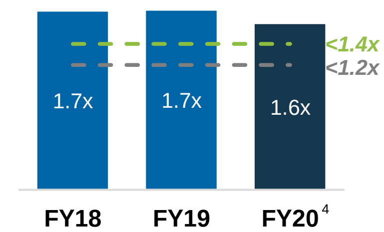
Net debt / EBITDA[2]



- Net debt/RAB gearing has decreased from 79.1% to 75.9% as a result of lower debt funding of capex and debt repayments. Significant headroom maintained above bank covenant level
- FY20 net debt/EBITDA has increased as a result of lower FY20 revenues from the 2019-24 AER Determination, the inclusion of remittal payments and temporary impact of COVID-19 on electricity consumption volumes

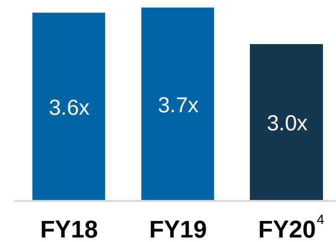
Cash flow

CFCR[3]



Default: <1.2x *Lock-up: <1.4x*

EBITDA / interest



Legend

- *FY15-19 reg. period*
- *FY20-24 reg. period*

- CFCR has remained at 1.6-1.7x with headroom above bank covenant levels
- FY20 EBITDA/interest has also reduced as a result of lower revenues from the AER Determination, the inclusion of remittal payments and COVID-19
- Transformation program has resulted in substantial savings since 2016 with further savings to be delivered through this regulatory period

Credit rating metrics

- FFO/debt is the primary credit metric assessed by S&P and Moody's, with historical outcomes disclosed in their reports outlined below

FFO / debt

	FY18A	FY19A	FY20E
Moody's	8.1%	8.4%	7.0-7.1%
S&P Global	8.5%	8.6%	5.8-5.9%

Source: Moody's and S&P credit rating reports

Moody's

"We regard Ausgrid's exposure to ongoing financial impacts associated with the coronavirus outbreak as manageable, given (1) the essential nature of the provided services which underpins demand for electricity, (2) the low price-elasticity of electricity demand, (3) the diverse customer base, and (4) the supportive regulatory framework allowing the group to recover revenue shortfalls in future periods.

5 June 2020

S&P Global

"We have affirmed the ratings on Ausgrid based on our expectations that the company's FFO to debt will revert to 7% by the year ending June 30, 2022. This recovery is based on our expectations of upward adjustments related to the under-recovery of revenues against regulatory allowances from fiscals 2020 and 2021 and Ausgrid achieving its forecast cost savings.

29 June 2020

Notes: 1. Net debt presented at face value;
2. FY19 EBITDA normalised by adding back goodwill impairment;
3. Cash flows normalised by adding back reform costs;
4. FY20 numbers are unaudited and subject to revision. Audited accounts are expected to be available on 28 August 2020

Ausgrid Better Together

Funding and liquidity

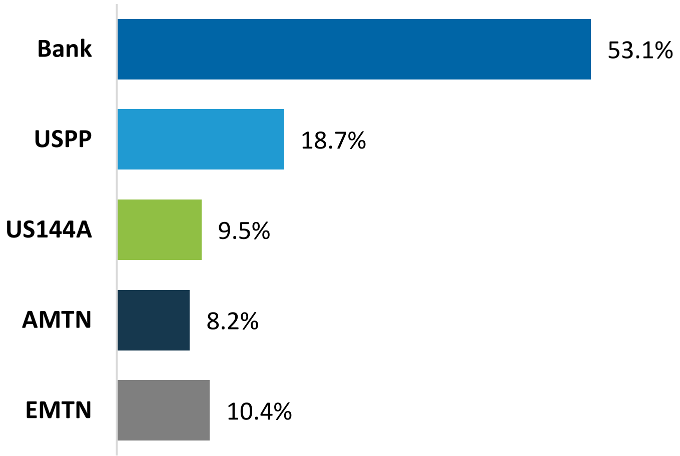
Ausgrid has a $12.6 billion debt portfolio, is committed to prudent capital management and seeks to minimise its cost of funding within defined risk parameters

Summary

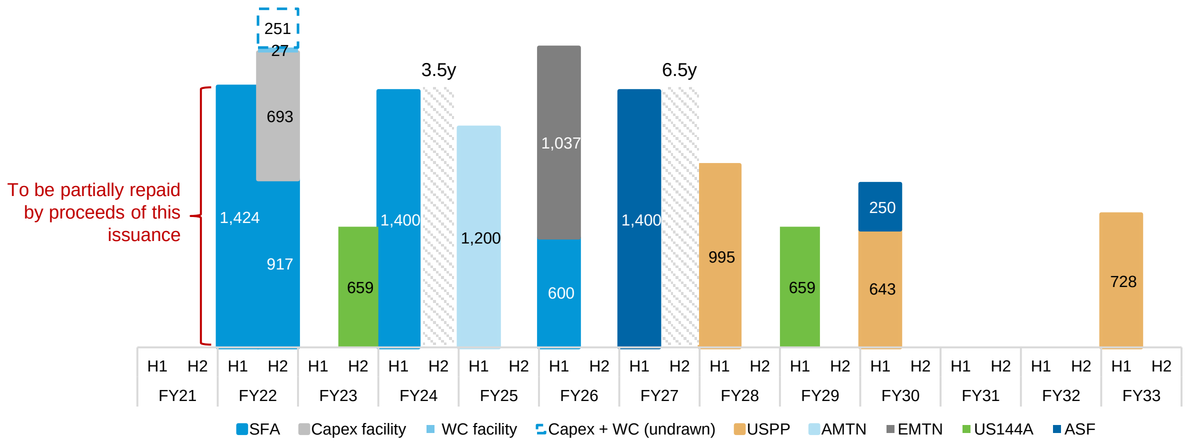
- Management's key focus to date has been to establish a global capital markets presence in order to achieve diversity of funding sources and tenors, with a view to managing refinancing risk in a prudent manner. All foreign currency and A$ debt is hedged to Australian dollar exposures at the time of issue. As set out in the Supporting Materials, interest rates are hedged separately to match regulatory periods
- The next debt maturities are in FY22, being $1.424 billion (B2 bank facility) in December 2021 and $917 million (B1 bank facility) in June 2022. The $971 million ($251 million undrawn) combined Working Capital/Capex Facility matures in June 2022
- Ausgrid has total liquidity of $614 million as at 30 June 2020, comprising $211 million of undrawn committed facilities and minimum cash balances of $403 million

Debt funding sources (as at June 2020)

Total drawn debt of $12.6 billion



Debt maturity profile[1,2]



Notes:

1. Foreign currency debt is hedged for its term via cross currency swaps to A$; debt amount shown are at the relevant hedged exchange rate
2. Weighted average debt maturity of the drawn debt portfolio as at 30 June 2020 equals 5.0 years

Summary

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

1 **Stable, regulated natural monopoly – no material COVID-19 impact**	✓ Long-life essential infrastructure with stable, **inflation-protected cash flows** ✓ Regulated revenues are **insulated from volume exposure** through the revenue cap regulatory regime providing revenue certainty ✓ The AER has made a final revenue determination for Ausgrid that allows for clear and predictable revenue over five years, from 1 July 2019 to 30 June 2024 ✓ **95% of revenues** are regulated ✓ The impact of COVID-19 on electricity consumption and Ausgrid's regulated revenues is temporary in nature, with the revenue cap regulatory regime allowing Ausgrid to recover any revenue under-recovery in future years
2 **Nationally significant infrastructure**	✓ Natural monopoly position in franchisee area within the State of NSW – **no competition** for transportation of electricity within Ausgrid's existing network ✓ Core infrastructure servicing Sydney and parts of NSW – the **most populous state** in Australia ✓ Australia is one of the few remaining AAA economies with **28 consecutive years of GDP growth** (prior to COVID-19)
3 **Experienced leadership**	✓ Culture change and transition to new executive leadership with a **significant safety focus** ✓ Productivity improvements and operational savings from the Transformation Program driving a sustainable reduction in opex
4 **Capital management and shareholder support**	✓ Credit ratings of **Baa1** from **Moody's** and **BBB** from **S&P** (both stable outlook) and prudent approach to capital management (Ausgrid's Treasury Policy and Partnership Deed requires that Ausgrid use reasonable endeavours to maintain a bbb/baa2 baseline credit assessment) ✓ Shareholders, Board and management are committed to maintaining these credit ratings – shareholder support evidenced by Board decision to reinvest dividends to support the business ✓ Strong liquidity position of $614 million as at 30 June 2020. No debt maturities until December 2021 ✓ No covenant pressure with headroom against key thresholds ✓ $12.6 billion drawn debt with gearing of 76% net debt/RAB and **$8.7 billion of acquisition equity value**

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Supporting materials

i. Company information

ii. Regulatory

iii. FY20 and historical financials

iv. Security structure

v. Treasury Policies

vi. ESG commitments

NSW economic overview

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

Key highlights

1. Australia has experienced **28 consecutive years of positive economic growth** prior to the onset of COVID-19

2. NSW is the largest economy and most populous state in Australia, representing **32% of the total Australian population** and over **5 million people** residing in Greater Sydney

3. The NSW economy represented **a third of Australia's GDP** for the year ended 30 June 2020

4. The 2019-20 NSW State Budget released in June 2019 provides for an **infrastructure related capital spend of $93bn** over four years to 2022-23

5. NSW has **three major electricity distribution networks:** Ausgrid, Endeavour Energy and Essential Energy

Overview of the Ausgrid board

Independent Chairman

Dr Helen Nugent AO

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

Non-executive directors

AustralianSuper

Jason Peasley

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

Hugh Gleeson

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

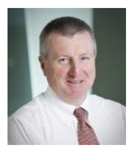
Wendy Thorpe

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

ifm investors

Michael Hanna

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



Michael Byrne

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

Ashley Barker

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

NSW Government

Belinda Gibson

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

Steven MacDonald

- Over 20 years of experience in the construction and infrastructure sectors in Australia, New Zealand and Asia
- Former CEO of Transfield Construction and MD of Zinfra Group

Robert Wright

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

Risk management and insurance

Formalised risk management framework

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

Insurance

- General Liability – $860 million of cover with a $250,000 deductible (includes Full Failure to Supply)
- Property – $1 billion of cover with a $10 million deductible for substations, $500,000 for vehicles and $200,000 for other assets
- Bushfire Liability – $860 million of cover with a $10 million deductible

Board risk appetite statement

Themes	
1. People, Health & Safety	Risk Averse
2. Customer	Risk Sensitive
3. Reputation	Risk Neutral
4. Cyber and Physical Security	Risk Averse
5. Environment	Risk Sensitive
6. Regulatory & Compliance	Risk Sensitive
7. People – Conduct	Risk Averse
8. People – Workforce & Culture	Risk Sensitive
9. Network Operations	Risk Sensitive
10. Finance	Risk Sensitive
11. Operating Technology	Risk Neutral
12. New Business	Risk Seeking

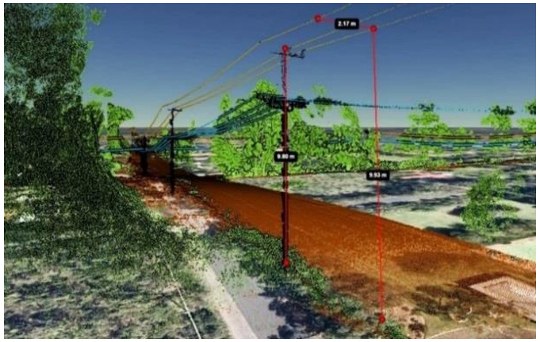
Definitions	
Risk Averse	Avoid risk taking wherever possible
Risk Sensitive	Limited risk taking
Risk Neutral	Calculated risk taking
Risk Seeking	Engage with risk pursue opportunities

Bushfire risk management

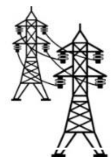
Inspection and maintenance using the latest technology in all potential bushfire impact areas

In potential bushfire impact areas, Ausgrid conducts:

- Vegetation monitoring and trimming to maintain minimum clearances from powerlines
- Annual Light Detection and Ranging scanning for vegetation clearance by helicopter
- Detailed assessments using drones of bushfire impact areas (identified using satellite imagery)
- Electrical asset inspection and maintenance regime (including high definition photography)
- Additional training for hazard tree identification by pole and line inspectors
- Annual inspections of private mains
- Annual inspections of all non-insulated service wire connections
- Annual audit of all high voltage customers installation safety plans



Future trends in the electricity value chain

Competitive	**Generation**		• Industry transition from coal and other fossil fuels to renewable sources
Regulated natural monopoly	**Transmission**		• Transmission will be required to manage new interconnections as fuel mix evolves • Poles and wires have a significant role to play in facilitating distributed generation
	Distribution		• Smart metering enables increased customer engagement with network and provides the opportunity to modify tariff structures and improve service through data analytics • The grid acts as a conduit to facilitate all forms of energy, including solar and batteries
Competitive	**Retail**		• Use of smart metering, interactive household devices and other technologies may result in an evolution of the retailer / end customer relationship

Australian electricity market regulatory environment

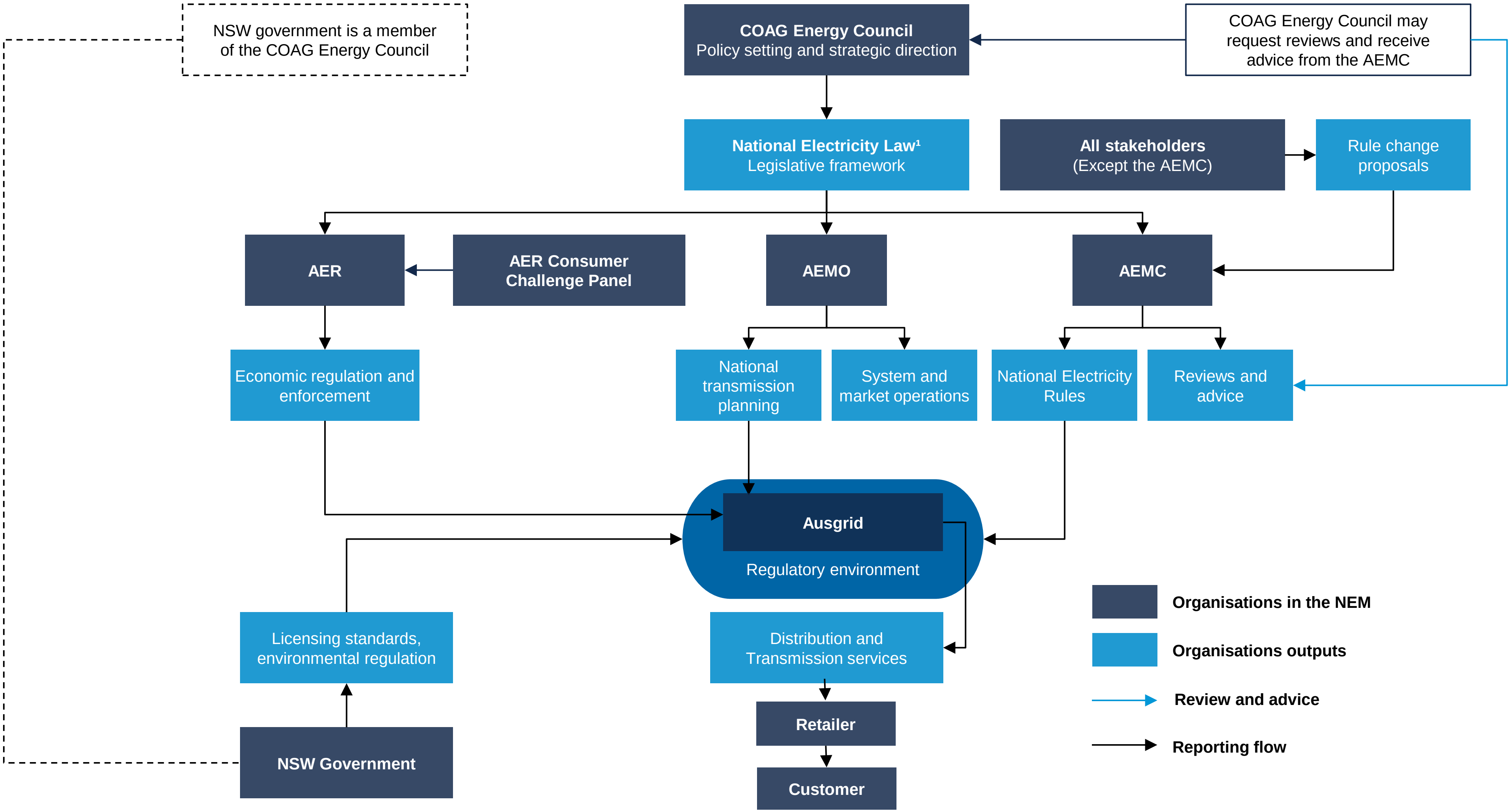
Established national regulatory regime governing the operational framework and revenue determination

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

AER AUSTRALIAN ENERGY REGULATOR

AEMC

Regulatory framework



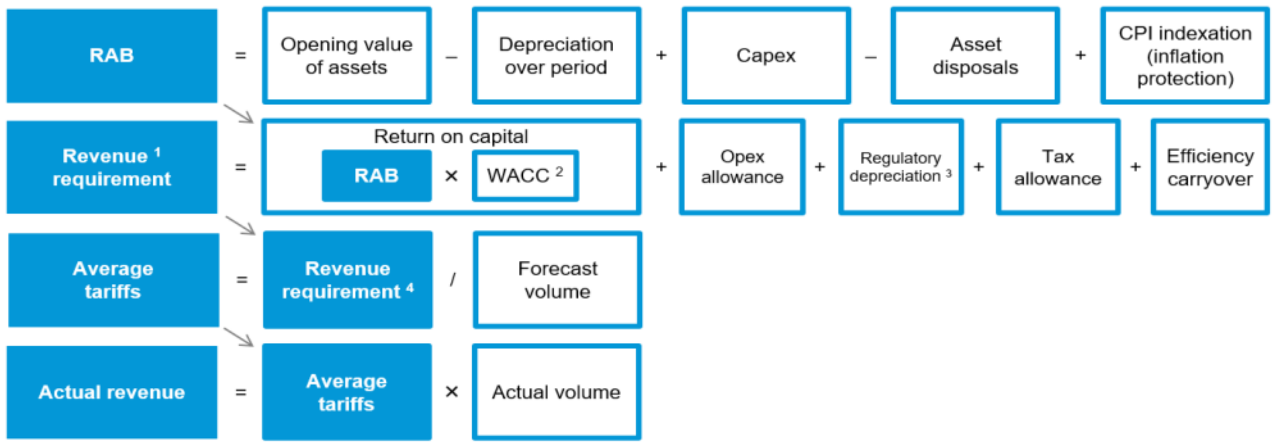
Source: HoustonKemp Economists

1. Allows for the making National Electricity Regulations

Regulatory building block methodology

Background

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



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

1) **Inflation protection** – revenues are adjusted for observed CPI[5] on a lagged basis
2) **Volume protection** – adjustments for differences in forecast and actual volumes (revenue cap)
3) **Interest rate protection** – update to cost of debt in regulatory WACC to incorporate changes in interest rates

Notes:
1. The revenue requirement could include a reduction from the application of the shared assets guideline (if a materiality threshold is met);
2. Weighted average cost of capital;
3. Equal to depreciation over period less CPI indexation;
4. The financial outcome for the application of the STPIS scheme will be added to the revenue requirement in deriving an average tariff;
5. Consumer Price Index (Sydney all groups) published by the Australian Bureau of Statistics

Regulatory key drivers

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

Value Driver	Description	Outperformance potential
Opex	• AER determines an efficient level of opex by reference to peer benchmarking and a range of other factors • Provided a business is 'efficient', AER typically adopts a 'base-step-trend' approach in setting the opex allowance, which relies on escalation of actual opex in a base year • The EBSS rewards opex underspend and penalises opex overspend against the regulatory allowance	• The EBSS entitles Ausgrid to retain approximately 30% of any opex underspend against the opex allowance • EBSS will apply in the FY20-24 regulatory period
Capex	• AER determines an efficient level of capex, typically based on a bottom-up assessment and trend analysis of historical expenditure • The CESS rewards capex underspend and penalises capex overspend against the regulatory allowance • AER can challenge any capex above the capex allowance on the basis it is imprudent or inefficient	• The CESS entitles Ausgrid to retain approximately 30% of any underspend against the capex allowance • Underspend also removes the risk of the AER challenging the prudency/efficiency of any capex if there is an aggregate capex overspend across the regulatory period

Debt pricing	• In determining regulatory WACC, the AER assumes a cost of debt by reference to a benchmark basket comprised of 2/3 efficient entities with a BBB+ rating and 1/3 efficient entities with an A rating issuing 10 year debt	• Regulated returns are improved by achieving borrowing costs below the AER benchmark – for example by:
		  • Targeting a weighted average debt tenor shorter than the benchmark
		  • Active treasury management to achieve more attractive pricing than the benchmark
		  • Hedging current debt book at current rates (whereas the AER uses a 10-year trailing average approach which includes higher historical debt costs)

Gearing	• In determining regulatory WACC, the AER consistently assumes a gearing ratio of 60% for all electricity utilities	• Regulated returns are improved by targeting higher gearing than the AER assumption of 60%
STPIS	• AER offers incentive payments / penalties based on performance against reliability targets relating to length and frequency of outages and telephone response times	• Exceeding performance and reliability targets will result in additional incentive payments to Ausgrid
Income tax	• AER assumes Ausgrid pays a corporate tax rate of 30% in determining the regulatory tax allowance	• Ausgrid's regulatory tax allowance will exceed actual tax paid where Ausgrid's effective tax rate is less than 30%

Regulatory developments – COVID-19

Ausgrid participated in the ENA package to assist small business and residential customers for the three months ended 30 June 2020. We are also discussing additional support options with the AER going forward

	1 ENA relief package	2 AER rule changes in response to COVID-19
Background	• Developed through consultation with retailers • Key focus to provide immediate relief to retail customers – well received by retailers with 22 retailers signed up	• AER has commenced work on potential rule changes in response to COVID-19
Key details	• Combination of waiver and deferrals of network charges • Smaller retailers can defer 20% of all network charges in respect of residential customers until September 2020 and receive a rebate for residential customers in hardship and small businesses in financial distress due to COVID-19 • Larger retailers are able to defer network charges for residential customers on hardship arrangements and will also receive a rebate for distressed small business customers • Scheme ends on 30 June 2020	• Two rule changes are currently being examined 1. Extending payment terms from 10 days to up to 6 months where a customer enters into a payment plan, deferred debt or other hardship arrangement because of COVID-19 2. Ability to smooth true-ups for COVID-19 related revenue under-recovery over multiple years or regulatory periods The first rule change has been initiated by the AEMC and is under consultation
Potential impact	• Measures have had an estimated $36 million[1] impact in FY20, most of which is deferred revenue – $13 million[1] waiver component, this revenue is forgone in FY20 – $23 million[1] deferral component, this revenue will be recognised in FY20 but won't be received until September 2020	• Rule change 1 – AEMC has released a directions paper which limits expected cash flow consequences of revenue deferrals to small customers and small retailers. Ausgrid has boosted liquidity by increasing the working capital facility limit in March 2020 • Rule change 2 – Will enable networks to minimise potential for price shocks
Applicability to network charges	31 Mar 2020 → *3 months* → 30 Jun 2020	30 Jun 2020 → *6 months +*

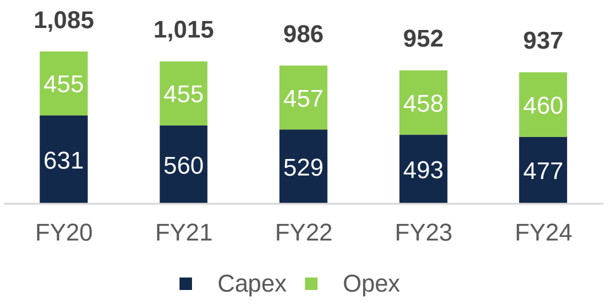
1. Estimates based on latest available data

2019-24 Final Determination – detailed components

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

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

Capex and opex allowance ($m, real FY19)[1]



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

Imputation Credits	FY20-24
Distribution Rate	90%
Utilisation Rate	0.65
Gamma[2]	**0.585**

Source: 2019-24 AER determination for Ausgrid

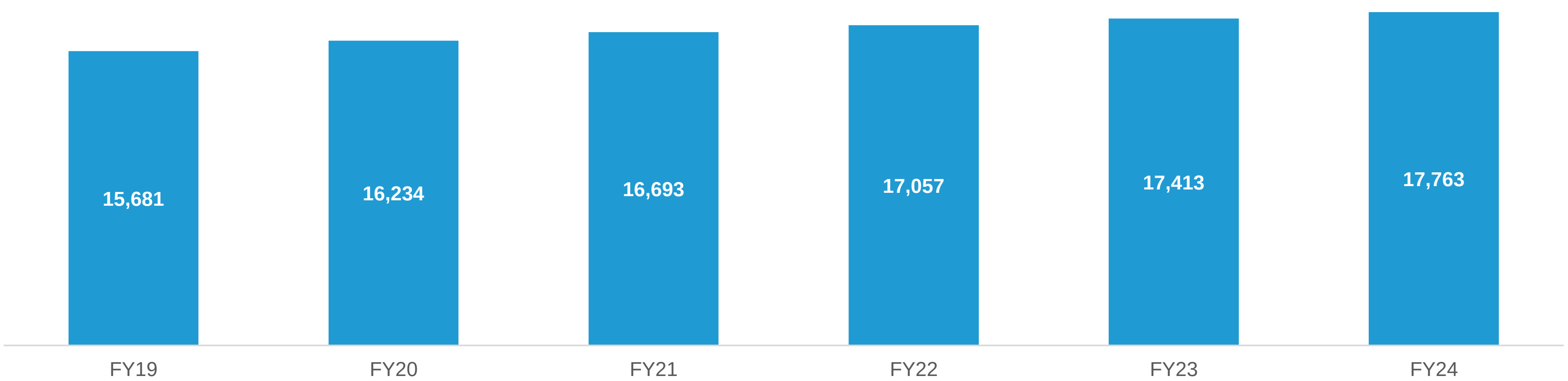
Notes:

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

2019-24 Final Determination – projected RAB

A$million, nominal	FY20	FY21	FY22	FY23	FY24
Opening RAB	15,681	16,234	16,693	17,057	17,413
Net capex (incl. disposals)	656	593	528	549	543
Straight line depreciation	(483)	(528)	(569)	(607)	(615)
Indexation	380	394	405	414	422
Closing RAB	**16,234**	**16,693**	**17,057**	**17,413**	**17,763**

Closing RAB (A$million, nominal)



Source: 2019-24 AER determination for Ausgrid

Comparison of 2014-19 and 2019-24 Determination

Comparison of key assumptions

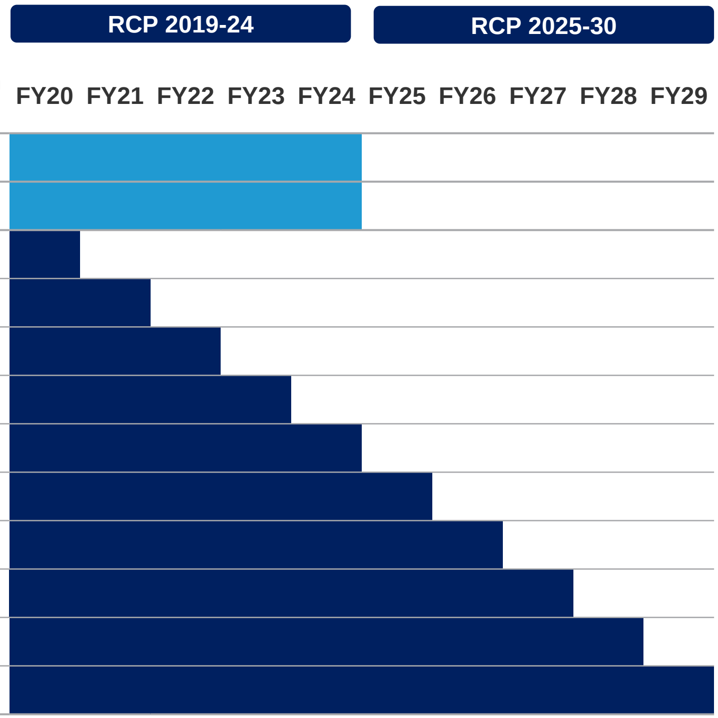
Item	2014-19	2019-24	Comments
Regulatory CPI	2.42%	2.42%	Consistent across regulatory periods
Tax allowance			
Depreciation method for tax calculation	Straight Line	Diminishing Value	Final outcome of Review of Regulatory Tax Approach changed tax depreciation calculation from straight-line method to diminishing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

Source: 2014-19 AER Determination for Ausgrid, 2019-24 AER Determination for Ausgrid

Interest rate hedging strategy

Notional swap profile

	Debt/RAB	Swap Tenor	Execution Year
16% D/RAB	7.55%	5	2019
	7.55%	5	2019
60% D/RAB 10 year trailing average	6.0%	1	2016
	6.0%	2	2016
	6.0%	3	2016
	6.0%	4	2016
	6.0%	5	2016
	6.0%	6	2016
	6.0%	7	2016
	6.0%	8	2016-17
	6.0%	9	2017
	6.0%	10	2018



60% Debt/RAB hedged to 10-year trailing average profile with 16% Debt/RAB hedged to next regulatory reset in June 2024

Overview

Ausgrid's interest hedging strategy can be broken down into:

- 60% debt to RAB hedged to 10-year trailing average cost of debt[1]
  - Ausgrid has an amortising swap profile that matches the tenor and profile of the existing regulatory debt allowance
  - Further swaps will be executed to match the timing and volume of the annual 10% cost of debt resets by the AER
- 16% debt to RAB (equity portion) hedged to end of current Regulatory Control Period

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

Ausgrid Better Together

Income statement

Income statement FY18-20[1]

A$m, nominal	FY18	FY19	FY20	*Variance (FY19-20)*
SCS revenue	2,327	2,299	2,015	(284)
ACS revenue	168	154	153	(1)
Unregulated revenue	117	142	121	(21)
Revenue	**2,612**	**2,595**	**2,289**	**(306)**
Pass-through costs	(436)	(355)	(397)	(42)
Gross margin	**2,176**	**2,240**	**1,892**	**(348)**
SCS opex	(434)	(376)	(393)	(17)
ACS opex	(72)	(81)	(103)	(22)
Unregulated opex	(87)	(107)	(67)	40
Operating expenses	**(593)**	**(564)**	**(563)**	**1**
Loss on disposal of property plant and equipment (**PPE**)	(10)	(21)	(10)	11
EBITDA	**1,573**	**1,655**	**1,319**	**(336)**
Depreciation and amortisation	(543)	(593)	(639)	(46)
Impairment	-	(348)	-	-
Reform costs	(35)	(77)	(12)	65
EBIT	**995**	**637**	**668**	**31**
Finance charges	(482)	(478)	(478)	-
Interest income	4	3	2	(1)
Profit before tax	**517**	**162**	**192**	**33**
Income tax expense	-	-	-	-
Profit after tax	**517**	**162**	**192**	**30**
KPIs				
Gross margin	83%	86%	83%	(3%)
EBITDA margin	60%	64%	58%	(6%)
Operating expenses as % of revenue	23%	22%	25%	3%

Comments

- The reduction in SCS revenue of $284 million from FY19 was due to a combination of factors, including a reduction in Ausgrid's Maximum Allowable Revenue following the 2019-24 AER Determination. This was primarily due to the lower risk free rate and market risk premium within the regulatory WACC (refer to page 43 for further details)
- The reduction in unregulated revenue of $21 million from FY19 was primarily a result of the reclassification of activities from unregulated to ACS. This was offset within ACS by lower demand for ancillary network services due to COVID-19 and lower prices for metering and public lighting services from FY20 following the AER Determination
- Operating expenses remained stable in total over FY19 and FY20. Higher SCS opex was primarily due to abnormal storm activity experienced during FY20, which is subject to a pass-through application and is forecast to be recovered in FY22
- A goodwill impairment expense of $348 million was recognised in FY19 in response to the AER Determination, which included a reduction in the regulatory rate of return. No impairment has been recognised in FY20
- Reform costs in the profit or loss of $12 million in FY20 were lower and represent the exit payments that were not provided for in FY19

Note: 1. FY20 numbers are unaudited and subject to revision

Cash flow statement

Cash flow statement FY18-20[1]

A$m, nominal	FY18	FY19	FY20	*Variance (FY19-20)*
EBITDA	1,573	1,655	1,319	(336)
(Increase)/decrease in net working capital	(42)	17	(83)	(100)
Non-cash items / reform costs / finance lease interest paid	(151)	(174)	(129)	45
Net cash flow from operating activities	**1,380**	**1,498**	**1,107**	**(391)**
Acquisition of business combination, net of cash acquired	(165)	-	-	-
Capital expenditure	(702)	(1,026)	(675)	351
Proceeds from the sale of PPE and assets	22	10	4	(6)
Net cash flow from investing activities	**(845)**	**(1,016)**	**(671)**	**345**
Free cash flow	**535**	**482**	**436**	**(46)**
Equity injection from partners	110	43	30	(13)
Net proceeds from borrowings	227	230	243	13
Finance costs paid	(477)	(451)	(465)	(14)
Interest received	4	3	2	(1)
Dividends paid (distributions paid)	(505)	(337)	(30)	307
Net cash flows from financing activities	**(641)**	**(512)**	**(220)**	**292**
Income tax paid	-	-	-	-
Net cash flow	**(106)**	**(30)**	**216**	**246**
Net cash flow (excluding income tax and dividends paid)	**399**	**307**	**246**	**(61)**

Comments

- Net cash flow from operating activities reduced by $391 million in FY20 primarily driven by:
  - lower tariffs following the AER Determination and reduced consumption volumes impacted by milder weather and COVID-19
  - higher cash reform costs due to employee exits under the FY20 Restructure
  - increased transmission charges from TransGrid
  - working capital movements
- Net cash flow from investing activities reduced by $345 million in FY20 due to lower capital expenditure as a result of the LWP
- Equity injection from partners of $30 million in FY20 represents distribution paid by Ausgrid Operator Partnership that was immediately reinvested as equity into PLUS ES
- Net proceeds from borrowings of $243 million in FY20 includes a $200 million drawdown during COVID-19 as a liquidity buffer. The smaller drawdown in FY20 is due to lower capital expenditure and a $95 million repayment of Ausgrid's syndicated loan facility
- Finance costs increased by $14 million in FY20 due to fees paid in relation to the refinance of Ausgrid's syndicated loan facility and higher interest payments from a higher loan balance in FY20

Ausgrid Better Together

Note: 1. FY20 numbers are unaudited and subject to revision

Capital expenditure

Capital expenditure FY18-20[1]

A$m, nominal	FY18	FY19	FY20
Replacement	472	577	385
Augmentation	18	29	29
Connection and reliability	15	23	37
Non-network and other	120	269	91
Regulated capex	**625**	**898**	**542**
ACS and unregulated capex	186	161	140
Total capex	**811**	**1,059**	**682**

Note: 1. FY20 numbers are unaudited and subject to revision

Balance sheet

Balance sheet FY18-20[1]

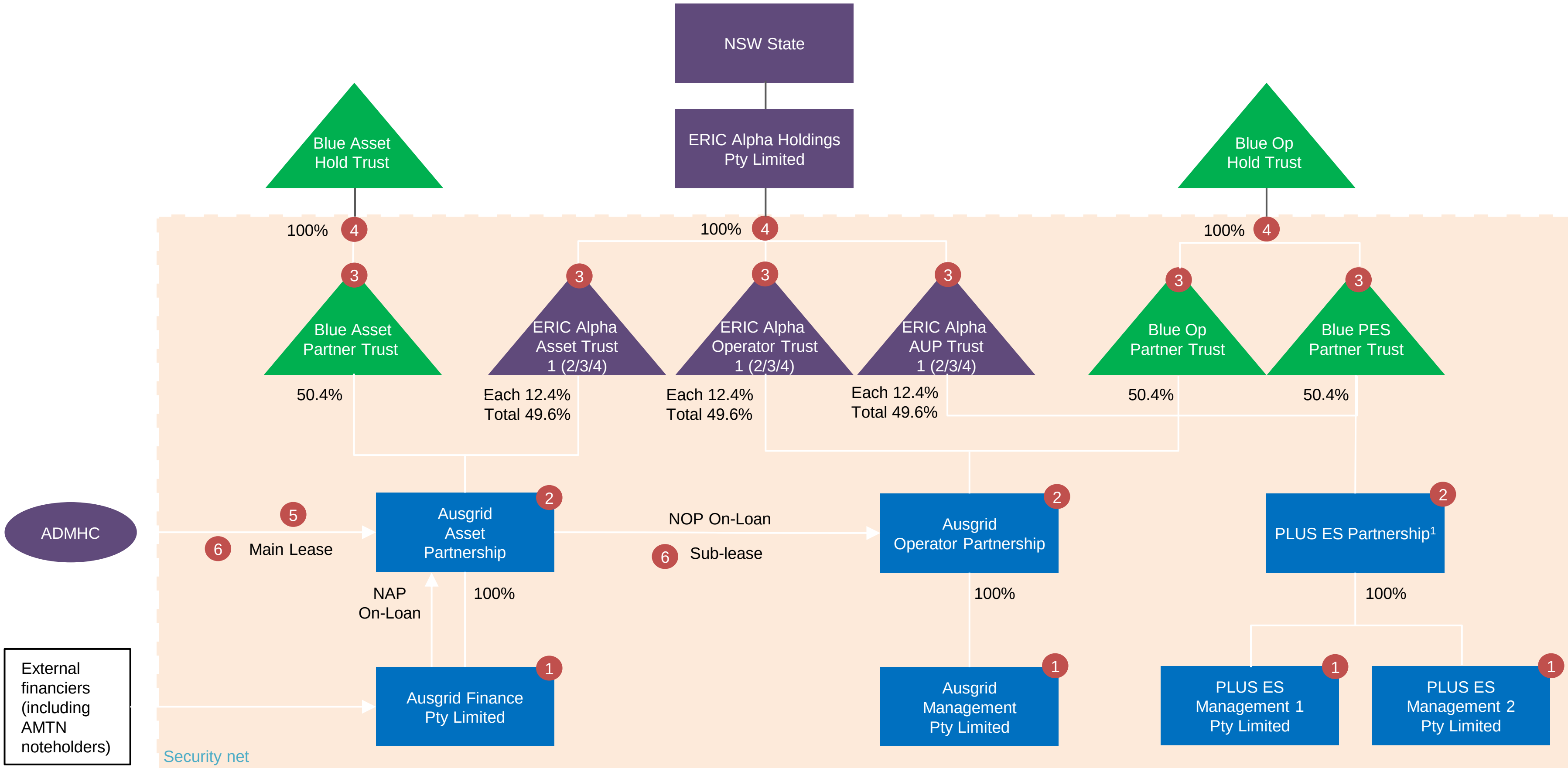
A$m, nominal	FY18	FY19	FY20	*Variance (FY19-20)*
Property, plant & equipment	16,212	16,735	16,925	190
Intangibles	3,981	3,671	3,641	(30)
Assets held for sale	10	4	4	-
Fixed assets	**20,203**	**20,410**	**20,570**	**160**
Accounts receivable/contract assets	426	419	359	(60)
Creditors	(301)	(292)	(266)	26
Inventories	39	38	31	(7)
Other current liabilities	(8)	(8)	(11)	(3)
Net working capital	**156**	**157**	**113**	**(44)**
Deferred tax assets/(liabilities)	(6)	206	305	99
Provisions	(472)	(530)	(399)	131
Derivatives	55	(23)	155	178
Other non-current liabilities	(42)	(56)	(75)	(19)
Deposits and unclaimed monies	(2)	(2)	(2)	-
Other assets/(liabilities)	**(467)**	**(405)**	**(16)**	**389**
Borrowings	(12,138)	(13,003)	(13,763)	(760)
Cash, deposits and investments	217	187	403	216
Other debt items	-	-	-	-
Net debt	**(11,921)**	**(12,816)**	**(13,360)**	**(544)**
Net assets	**7,971**	**7,346**	**7,307**	**(39)**
Capital	8,847	8,890	8,920	30
Reserves	13	(480)	(711)	(231)
Retained earnings	(889)	(1,064)	(902)	162
Equity	**7,971**	**7,346**	**7,307**	**(39)**

Comments

- The increase in fixed assets of $160 million in FY20 is mainly driven by additions of $813 million offset by depreciation/amortisation of $639 million and disposal of assets of $14 million
- The decrease in accounts receivable/contract assets of $60 million in FY20 is mainly driven by the lower unread meter revenue accrual which reflects the lower tariffs following the AER Determination for the FY20-24 regulatory period and lower consumption in the last quarter of FY20 due to COVID-19
- The increase in deferred tax assets/(liabilities) of $99 million in FY20 represents the tax impacts (30%) on the fair value movement of the cash flow hedges and the actuarial losses of the defined benefit plan
- The decrease in provisions of $131 million in FY20 mostly relates to employee exits through the FY20 Restructure
- The increase in derivatives of $178 million in FY20 is mostly due to the strengthening of the AUD against the EUR and USD and decrease in interest rates
- The increase in borrowings of $760 million in FY20 is mainly due to drawdowns under the Ausgrid's loan facilities (net drawdown of $243 million), fair value movements of $504 million due to the strengthening of the AUD against the EUR and USD, and the decrease in interest rates and capitalised ASF transaction costs of $16 million. Borrowings in the balance sheet are measured at fair value under accounting standards and translated at year end exchange rates. This differs from borrowings presented on page 27 which are measured at the relevant hedged rate
- The increase in cash of $216 million in FY20 is mostly due to the $200 million additional funds drawn down during COVID-19
- The increase in reserves of $231 million in FY20 mainly relates to the decrease in the fair value of swaps during FY20 due to a reduction in interest rates

Note: 1. FY20 numbers are unaudited and subject to revision

Security structure



Security includes:

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

Note: 1. PLUS ES has another subsidiary – Active Stream Pty Limited that holds legacy metering services and other contracts but is not a guarantor or security provider

Summary borrowing structure

Security structure

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

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

Tripartite Deed

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

- the Lessor[1] consents to the creation and existence of the Security (including the mortgage of the Network Lease granted by the Ausgrid Asset Partnership)
- the Lessor agrees that neither the creation of the Security nor the exercise of any powers under it is of itself a breach of, or constitutes a 'Lessor Termination Event' under, the Network Lease or entitles the Lessor to exercise any termination right under the Network Lease
- the Lessor agrees that an Enforcing Party[2] may, in the exercise of its powers under any Security, assign and transfer the Network Lease in accordance with its terms, provided that the Enforcing Party does so in compliance with the requirements in the Network Lease
- the Lessor grants certain cure rights to the Security Trustee in respect of 'Lessor Termination Events' under and as defined in the Network Lease

Notes:
1: ADMHC (ABN 67 505 337 385), under the Network Lease
2. Such as the Security Trustee or a receiver

Treasury policies

Category	
Credit rating	• Ausgrid will use reasonable endeavours to maintain a bbb/baa2 baseline credit assessment and not less than bbb-/baa3
Interest rate risk	• Minimum of regulatory debt allowance (60% of RAB) to be hedged on trailing 10-year basis, with up to 100% of any residual floating interest rate exposure to be hedged consistent with the five year regulatory reset framework
Liquidity risk	• Cash and committed undrawn credit facilities to cover 1.2x its rolling three months look-forward financial obligations, defined as working capital, finance costs and capital expenditure
Funding	• Capex will be funded by drawdowns from committed, undrawn facilities, to a maximum of 75% of total capex in that period • If there is a planned concentration of capex spending within a 12 month period, the Board will consider whether to fund a capex reserve prior to such period
Refinancing risk	• Following the refinancing of the debt facilities put in place at the time of acquisition, no more than 20% of debt facilities to mature in any 12 month period • The refinancing process for borrowing facilities to be commenced no later than 12 months prior to maturity date and a firm commitment be in place no later than three months prior to maturity
Foreign exchange risk	• Hedge all foreign exchange exposures in excess of A$5 million (equivalent) at inception of exposure
Counterparty credit risk at inception	• Hedge and deposit counterparties must be rated a minimum of A-/A3

Sustainability – Business-wide ESG commitments

Sustainability at Ausgrid is about operating in a safe, responsible manner that will enable us to deliver affordable and reliable energy choices to our customers now and in future.

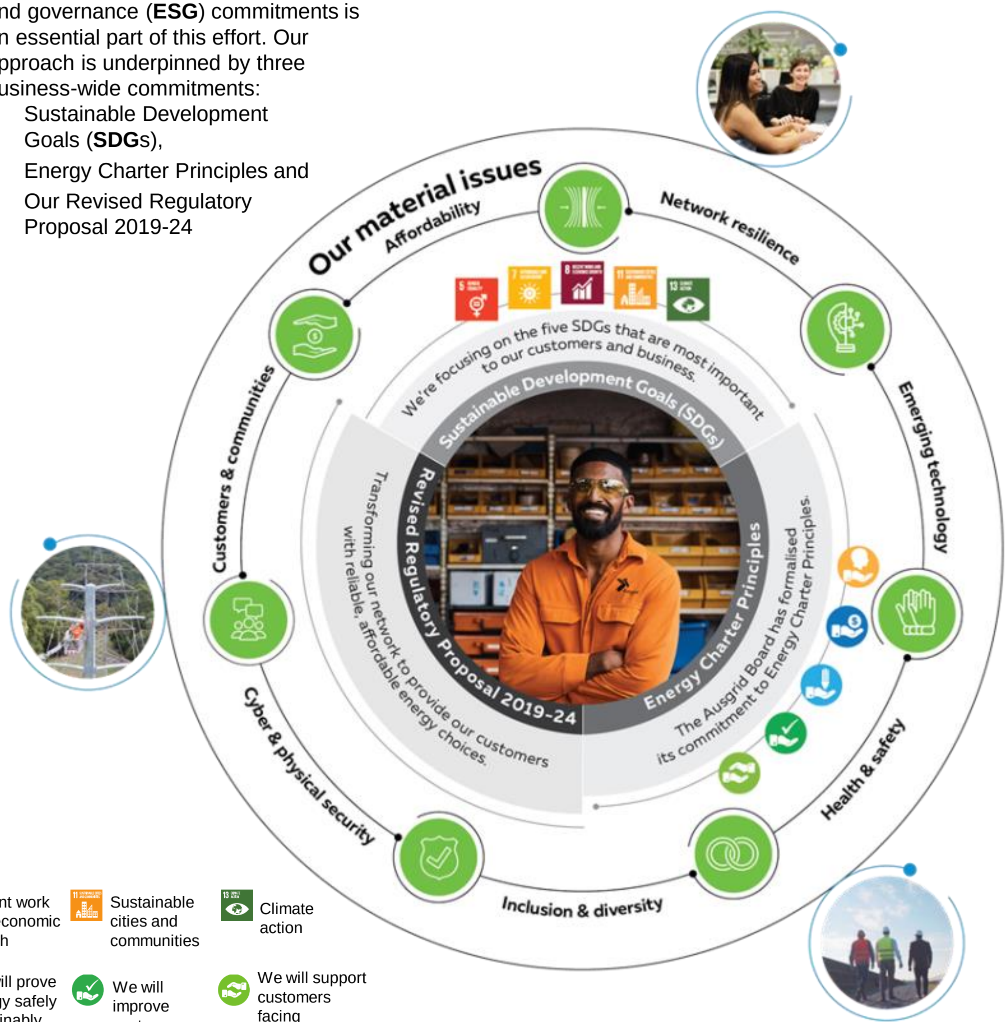
To achieve this, we know that it's now more important than ever to communicate transparently on our progress.

Reporting on our environmental, social and governance (**ESG**) commitments is an essential part of this effort. Our approach is underpinned by three business-wide commitments:

- Sustainable Development Goals (**SDGs**),
- Energy Charter Principles and
- Our Revised Regulatory Proposal 2019-24

Environment

- Reducing our own carbon emissions
- Providing cleaner energy choices for customers
- Managing our climate change physical and transitional risks
- Enabling the transition to clean energy
- ISO 14001 Environmental management system (**EMS**)



Social

- Keeping our people, customers and community safe
- Delivering affordable, reliable energy choices
- Listening and responding to our customers
- Fostering community trust
- Inclusion and Diversity – our workforce reflecting our communities
- Managing our costs and network demand to make electricity more affordable

Governance

- Building a workforce that lives our values
- Investing in our capability to protect critical infrastructure assets
- Integrating sustainability into policies and practices
- Working with our customers to improve our business
- Our Board and its committees oversee our performance and the sustainability of Ausgrid — All

Key:

UN Sustainable Development Goals:

- 5 Gender equality
- 7 Affordable and clean energy
- 8 Decent work and economic growth
- 11 Sustainable cities and communities
- 13 Climate action

Energy Charter Principles:

- We will put customers at the centre of our business and the energy system
- We will improve energy affordability for customers
- We will prove energy safely sustainably and reliably
- We will improve customer experience
- We will support customers facing vulnerable circumstances

Ausgrid Better Together

Sustainability – Environment

We are committed to conducting our business in a way that drives environmental sustainability. This means we are proactively working to reduce our impact on the planet, address climate change and be innovative with new technologies and how we use them with our customers

Reducing our own carbon emissions

Our annual footprint is close to 1 million tonnes CO2-e

To reduce this footprint, we established clear CO2-e emission reduction targets:

8% **reduction by end FY2024**

17% **reduction by FY2030**

(**44%** **excluding line losses[1]**)

Ausgrid Climate Change Statement

Managing our climate change physical and transitional risks

Our Climate Change Statement and emissions reduction targets demonstrate we take this seriously. In practice this means:

Bushfire preparedness and storm management to keep our customers, people and network safe

Hardening our network so it is more resilient to climate change and provides our customers cleaner energy choices

Spending **$280m p.a.** to replace ageing assets and improve reliability

Enabling the transition to clean energy

We are investing **$42m** **Network Innovation Program** over the next five years to test new grid technologies that improve customer outcomes

ISO 14001 Environmental management system (EMS)

20+ years certified to the international standard ISO 14001.

Annual Environmental Sustainability Improvement Plan to identify actions that help achieve Ausgrid's environmental targets, objectives and long-term vision

Environmental Management System

Providing cleaner energy choices for our customers

We are being innovative by:

- **planning pilots of community batteries**
- **trialling virtual power plants (in which household batteries feed back into our network)** to allow us to become the internet of energy

Key: Supporting documents | Network resilience | Emerging technology

1. In FY19, average line losses were 3.7% of the energy we move

Sustainability – Social

Through our services, policies and organisational culture, Ausgrid delivers safe, reliable and affordable energy to our customers

We recognise that our infrastructure is present in all the communities we operate and that we have a large impact when things go well or when our service is interrupted

Listening and responding to our customers

Each year our Energy Charter report will tell our customers how we are working to achieve the five principles, making sure we keep **our customers at the centre of our decisions**. This is informed by data-driven customer insights with the Customers at the Centre Project

Fostering community trust

'Fostering Community Trust' which includes three priority programs; Building trusting stakeholder relationships; Basics done brilliantly customer service; and Fostering sustainable communities

The objective of these programs is to better enable Ausgrid to address customer needs, deliver more collaborative governance, improve Ausgrid's understanding of their emerging needs and then design services to meet them

Energy Charter Annual Accountability Disclosure Report

Managing our costs and network demand to make electricity more affordable

We work with our Customer Consultative Committee to design new demand tariffs to make electricity more affordable. This resulted in **fairer pricing structures in our tariff structure statement**

Delivering affordable, reliable energy choices

We have been working to ensure our network meets the **developing energy needs and choices of our customers.** Between 2015-2019, there was:

28%
total savings in Ausgrid network charges

Every five years Ausgrid also provides a regulatory submission to the Australian Energy Regulator who assesses our operational, maintenance and construction works plan and costs

Our Revised Plan means:

- **lowered operating cost by $100m p.a.**
- **additional operational expenditure productivity improvements from 1 July 2020**

Financial Hardship Policy

Keeping our people, customers and community safe

In FY19 we had an improvement from the previous year of a:

41%
decrease in recordable injuries

14%
decrease in lost time injuries

We also created **Our Lifesavers**, which are eight simple rules to add clarity to our highest risk tasks

Commitment to Health, Safety & Environment Policy

Inclusion and Diversity – our workforce reflecting our communities

Inclusion and Diversity Council is striving to have our workforce better reflect our communities. This is chaired by our CEO

Our **Reconciliation Action Plan** outlines our commitment to advancing reconciliation and building relationships, respect and opportunities for Aboriginal and Torres Strait Islander peoples

Key: Supporting documents | Affordability | Health & safety | Inclusion & diversity | Customers & communities

2. Our Customer Consultative Committee includes representatives from eleven public advocacy, not for profit and other organisations.

Sustainability – Governance

Our Board assumes overall responsibility for Ausgrid's corporate governance, overseeing the performance of the organisation, our management, employees and the interests of our shareholders and stakeholders

Integrating sustainability into policies and practices

We created our **External Partner Code of Conduct** to communicate our expectations of our external partners and their supply chains in providing goods and services to our organisation. These expectations are grouped under four pillars:

• Social • Environmental • Governance • Economic

- External Partner Code of Conduct
- Ausgrid Procurement Statement

Working with our customers to improve our business

We established several bodies to better collaborate with our customers and become industry leaders in the management of new technologies. These include:

- the **Technology Review Committee** which helps improve transparency of investments in information technology and cyber
- the **Network Innovation Advisory Committee** which drives our innovation program

Investing in our capability to protect critical infrastructure assets

Ausgrid is investing in a range of measures designed to reduce our highest cyber risks, including inappropriate access to our systems, the potential loss of critical data and supplier cyber risk. These include:

Investing

$44m p.a.

in technology, including cyber security

Comprehensively **reviewing all systems and processes** to protect our assets, operations, and information from intrusion, damage and theft.

Our Board overseeing our success

The Board maintains five committees that are essential to the financial success and sustainability of the company:

- Heath, safety & environment
- Finance
- Risk
- Audit
- Remuneration

Building a workforce that lives our values

Our values:
- Work safe, live safe
- Customer-focused
- Commercially minded
- Collaborative
- Honest and accountable
- Respect

We now have comprehensive **customer-focused metrics and values in executive incentives**, including both long- and short-term incentive plans. For example, improving the RepTrak® score will be a key measure for the Executive Leadership Team's long-term incentives

- Energy Charter Annual Accountability Disclosure Report
- Code of Conduct

Key:

Supporting documents | Emerging technology | Health & safety | Inclusion & diversity | Cyber & physical security | All: All material issues

Glossary

AAP	Ausgrid Asset Partnership[1]	**GRI**	Global Reporting Initiative
ACS	Alternative Control Services	**HV**	High Voltage
ADMHC	Alpha Distribution Ministerial Holding Corporation	**IoT**	Internet of Things
ADMS	Advanced Distribution Management System	**LED**	Light Emitting Diode
AEMC	Australian Energy Market Commission	**LTIFR**	Lost Time Frequency Rate
AEMO	Australian Energy Market Operator	**LWP**	Live Work Pause
AER	Australian Energy Regulator	**NEM**	National Electricity Market
AMTN	Australian Medium Term Note	**NER**	National Electricity Rules
ANS	Ancillary Network Services	**NSP**	Network Service Provider
AOP	Ausgrid Operator Partnership[2]	**NSW**	New South Wales
ASF	Asian Syndicated Facility	**NUOS**	Network Use of System
AUM	Assets under management	**Opex**	Operating expenditure
AVR	Additional Voluntary Redundancy	**p.a.**	per annum
CAGR	Compound Annual Growth Rate	**PPE**	Property, Plant and Equipment
Capex	Capital expenditure	**RAB**	Regulated Asset Base
CCF	Climate Change Fund	**RBA**	Reserve Bank of Australia
CESS	Capital Expenditure Sharing Scheme	**RCP**	Regulatory Control Period
C&I	Commercial and Industrial	**S&P**	Standard & Poors
CPI	Consumer Price Index	**SCS**	Standard Control Services
COVID-19	Coronavirus pandemic	**SFA**	Syndicated Facility Agreement
DER	Distributed Energy Resources	**SDG**	Sustainable Development Goal
DNSP	Distribution Network Service Provider	**ST**	Sub-transmission
DSO	Distribution System Operator	**STPIS**	Service Target Performance Incentive Scheme
EA	Enterprise Agreement	**TCFD**	Taskforce on Climate-related Financial Disclosure
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation	**TNSP**	Transmission Network Service Provider
EBSS	Efficiency Benefit Sharing Scheme	**Totex**	Total expenditure
EMTN	Euro Medium Term Note	**TRIFR**	Total Recordable Injury Frequency Rate
EMS	Environmental Management System	**USPP**	US Private Placement
ESG	Environmental, social and governance	**VPP**	Virtual Power Plant
FTE	Full Time Employee	**WACC**	Weighted Average Cost of Capital
FY	Financial Year	**WC**	Working Capital
GDP	Gross Domestic Product		

Notes:
1. Also referred to as NAP in the loan documents and AMTN IM
2. Also referred to as NOP in loan documents and AMTN IM

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