OFFERING CIRCULAR

VICTORIA POWER NETWORKS (FINANCE) PTY LTD

(ABN 68 101 392 161)

(incorporated with limited liability in Australia)

€3,000,000,000

Euro Medium Term Note Programme

Unconditionally and irrevocably guaranteed by

POWERCOR AUSTRALIA LTD

CITIPOWER PTY LTD IN ITS PERSONAL CAPACITY AND IN ITS CAPACITY AS TRUSTEE OF THE CITIPOWER TRUST

Under this €3,000,000,000 Euro Medium Term Note Programme (the "**Programme**"), established by Victoria Power Networks (Finance) Pty Ltd (the "**Issuer**"), the Issuer may from time to time issue Notes (as defined below) denominated in any currency (subject to applicable laws) agreed between the Issuer and the relevant Dealer or Dealers (as defined below).

The Notes shall have the benefit of the unconditional and (subject to release of any Guarantor (as defined below)) irrevocable, joint and several guarantees (the "**Guarantees**") given by Powercor Australia Ltd (ABN 89 064 651 109) ("**Powercor**") and CitiPower Pty Ltd (ABN 76 064 651 056) ("**Citipower**") in its personal capacity and in its capacity as trustee of The CitiPower Trust (ABN 75 569 155 798) (each an "**Initial Guarantor**" and together, the "**Initial Guarantors**"). From time to time and in accordance with the terms of the Trust Deed (as defined below), and subject to the requirements set out in the Conditions, a wholly owned subsidiary of the Issuer which is not an Initial Guarantor may be appointed as an additional guarantor (each such guarantor, an "**Additional Guarantor**") or a Guarantor may be released from its Guarantee and shall cease to be a Guarantor. The Initial Guarantors, together with any Additional Guarantors but excluding any such released Guarantors, are referred to herein as the "**Guarantors**".

The Issuer may, from time to time, issue Notes other than the notes issued under the Australian Deed Poll (as defined below) (the "**AMTNs**") in bearer form ("**Bearer Notes**") or registered form ("**Registered Notes**") and such Notes be constituted by a trust deed dated 14 June 2016 between the Issuer, the Guarantors and The Bank of New York Mellon, London Branch (the "**Trustee**") (the "**Trust Deed**"). The AMTNs may be issued in registered form only and will be constituted by a deed poll dated 14 June 2016 executed by the Issuer (the "**Australian Deed Poll**"). The Bearer Notes, Registered Notes and the AMTNs are collectively the "**Notes**". The payments of all amounts due in respect of the Notes will be guaranteed pursuant to the terms of the guarantees (the "**Guarantee**") contained in the Trust Deed by the Guarantors, subject to the terms of the Trust Deed.

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €3,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the dealers appointed under the Programme from time to time by the Issuer (a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an on-going basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Notes.

See "*Investment Considerations*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

Application has been made to receive the approval-in-principle from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for permission to deal in, and for quotation of, any Notes which are agreed at the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST (the "**Official List**") of the SGX-ST. Unlisted series of Notes may also be issued pursuant to the Programme and Notes may also be listed on stock exchanges other than SGX-ST. The relevant Pricing Supplement (as defined below) in respect of any Series (as defined in "*Terms and Conditions of the Notes*") of Notes will specify whether or not such Notes will be listed on the SGX-ST or on any other stock exchange. There is no assurance that the application to the Official List for the listing of the Notes of any Series will be approved. Admission to the Official List and listing of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantors, the Programme or such Notes. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Offering Circular.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a pricing supplement (the "**Pricing Supplement**") which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST before the listing of Notes of such Tranche.

Each Series (as defined in "*Overview of the Programme*") of Bearer Notes will be represented on issue by a temporary global note in bearer form (each a "**Temporary Global Note**") or a Permanent Global Note (as defined below), and will be sold in an "offshore transaction" within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Interests in Temporary Global Notes generally will be exchangeable for interests in permanent global notes (each a "**Permanent Global Note**" and, together with the Temporary Global Notes, the "**Global Notes**"), or if so stated in the relevant Pricing Supplement, definitive Notes, after the date falling 40 days after the later of the commencement of the offering and the relevant issue date of such Tranche, upon certification as to non-US beneficial ownership. Interests in Permanent Global Notes will be exchangeable for definitive Notes in whole but not in part as described under "*Form of the Notes*". Registered Notes will initially be represented by a permanent registered global certificate (each a "**Global Certificate**") without interest coupons.

Global Notes and Global Certificates may be deposited on the issue date with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). The provisions governing the exchange of interests in Global Notes and Global Certificates for other Global Notes or Global Certificates and definitive Notes are described in "*Form of the Notes*". The Notes and the Guarantee have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States and the Notes may include Bearer Notes that are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or, in the case of Bearer Notes, delivered within the United States or to or for the account or benefit of U.S. persons (as defined in Regulation S).

See "*Form of the Notes*" for a further description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see "*Subscription and Sale*".

The Programme rating was last reviewed and updated by Standard & Poor's Rating Services on 24 May 2019. Notes issued under the Programme may be rated or unrated. Where an issue of a certain series of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and (where applicable) such rating will be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

This Offering Circular is an advertisement and not a prospectus for the purposes of EU Directive 2003/71/EC (as amended).

Arrangers

J.P. MORGAN SECURITIES PLC **J.P. MORGAN SECURITIES AUSTRALIA LIMITED**

Dealers

J.P. MORGAN SECURITIES PLC

J.P. MORGAN SECURITIES AUSTRALIA LIMITED

The date of this Offering Circular is 27 March 2020.

Each of the Issuer and the Guarantors accepts responsibility for the information contained in this Offering Circular. The Issuer and the Guarantors, having made all reasonable enquiries, confirm that this Offering Circular contains or incorporates all information with respect to the Issuer, the Guarantors, the Group (as defined below) and the Notes which is material in the context of the issuance and offering of Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading in any material respect and which, in each case, is material in the context of the issuance and offering of the Notes.

The SGX-ST takes no responsibility for the contents of this Offering Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Subject as provided in the applicable Pricing Supplement, the only persons authorised to use this Offering Circular in connection with an offer of Notes are the persons named in the applicable Pricing Supplement as the relevant Arrangers or the Dealers, as the case may be. This Offering Circular and any other documents or materials in relation to the issue, offering or sale of the Notes have been prepared solely for the purpose of the initial sale by the relevant Dealers of the Notes from time to time to be issued pursuant to the Programme.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

No person is or has been authorised by the Issuer and the Guarantors to give any information or to make any representation not contained in or not consistent with this Offering Circular or other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantors, the Arrangers, the Dealers, the Trustee or any Agent (as defined below).

None of the Arrangers, the Dealers, the Trustee or the Agents have separately verified the information contained in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee or the Agents accepts any responsibility or liability for the contents, or completeness of this Offering Circular, for the information incorporated by reference into this Offering Circular, or for any other information given or statement made or purported to be made by the Arrangers, the Dealers, the Trustee or the Agents or on any of their behalf in connection with the Issuer, the Guarantors or the issue and offering of the Notes. Each Dealer, each Arranger, the Trustee and each Agent accordingly disclaim all and any liability whether arising in tort, contract or otherwise which it might otherwise have in respect of this Offering Circular, such information incorporated by reference or any such statement.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation; or (ii) should be considered as a recommendation by the Issuer, the Guarantors, the Arrangers, the Trustee, any Agent or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Any recipient of this Offering Circular contemplating purchasing any Notes should determine for itself the relevance of the information contained in this Offering Circular and should make its own independent investigation of the Issuer and the Guarantors' financial condition and affairs, and its own appraisal of their creditworthiness. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of

the Issuer the Guarantors, any of the Arrangers, the Dealers, the Trustee or any Agent to any recipient of this Offering Circular to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor any sale made in connection herewith, under any circumstances, create any implication that there has been no change in the affairs of the Issuer and the Group (as defined below) since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer and the Guarantors since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. None of the Arrangers, the Dealers, the Trustee or the Agents undertake to review the financial condition or affairs of the Issuer and the Guarantors during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers, the Trustee or any Agent.

This Offering Circular has not been, and will not be, and no prospectus or other disclosure document in relation to the Programme or the Notes has been or will be, lodged with the Australian Securities and Investments Commission or any other regulatory authority in Australia and this Offering Circular is not, and does not purport to be, a document containing disclosure to investors for the purposes of Part 6D.2 or Part 7.9 of the Corporations Act 2001 of the Commonwealth of Australia (the "**Corporations Act**"). It is not intended to be used in connection with any offer for which such disclosure is required and does not contain all the information that would be required by those provisions if they applied. It is not to be provided to any "retail client" as defined in section 761G of the Corporations Act. This Offering Circular is not, and under no circumstances is to be construed as, an advertisement or public offering of any Notes in Australia. None of the Issuer or the Guarantors is licensed to provide financial product advice in respect of the Notes or the Guarantees. Cooling-off rights do not apply to the acquisition of the Notes.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to the general public to buy any Notes in any jurisdiction and particularly to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Guarantors, the Arrangers, the Dealers, the Trustee or the Agents represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken or shall be taken by the Issuer, the Arrangers, the Dealers, the Trustee or the Agents which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations of such jurisdictions. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Australia, Japan, Hong Kong, Singapore, the Netherlands and Switzerland, see "*Subscription and Sale*".

The Notes and the Guarantee have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or, in the case of Bearer Notes, delivered within the United States or to or for the

account or benefit of U.S. persons (as defined in Regulation S). For a description of certain restrictions on offers and sales of Notes and on distribution of this Offering Circular, see "*Subscription and Sale*".

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

From time to time, in the ordinary course of business, certain of the Dealers, the Arrangers and their respective affiliates have provided advisory and investment banking services, and entered into other commercial transactions with the Issuer, the Guarantors and their respective affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Dealers, the Arrangers and their respective affiliates will continue to provide such services to, and enter into such transactions, with the Issuer, the Guarantors and their respective affiliates in the future.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

None of the Issuer, the Guarantors, the Arrangers, the Dealers, the Trustee or the Agents makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

Subject as provided in the applicable Pricing Supplement, the only persons authorised to use this Offering Circular in connection with an offer of Notes are the persons named in the applicable Pricing Supplement as the relevant Dealers or the Managers, as the case may be.

Copies of each Pricing Supplement will be available from the Issuer's or the relevant Guarantors' registered office and the specified office set out at the end of this Offering Circular of each of the Paying Agents (as defined in the Conditions).

MIFID II PRODUCT GOVERNANCE / TARGET MARKET: The Pricing Supplement in respect of any Notes will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFiD Product Governance Rules.

SINGAPORE SFA PRODUCT CLASSIFICATION: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

IMPORTANT - EEA AND UK RETAIL INVESTORS: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPS Regulation.

PRESENTATION OF FINANCIAL INFORMATION

Each of the Issuer and the Guarantors prepares its consolidated financial statements in Australian dollars in accordance with the International Financial Reporting Standards ("**IFRS**") adopted by the International Accounting Standards Board.

Unless otherwise indicated, consolidated financial information of the Issuer included in this Offering Circular has been derived from the audited consolidated financial statements of the Issuer as at and for the financial years ended 31 December 2017, 31 December 2018 and 31 December 2019. The consolidated financial statements for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 were audited by Deloitte Touche Tohmatsu, of 550 Bourke Street, Melbourne VIC 3000, in accordance with Australian Accounting Standards (the "**AASBs**") and the Corporations Act.

CERTAIN DEFINITIONS

All references in this document to "U.S. dollars", "US$" and "$" refer to the lawful currency of the United States of America and all references to "Australian dollars" and "A$" refer to the lawful currency of the Commonwealth of Australia. All references to euro and € refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended. All references in this document to "Group" refer to the Issuer, the Guarantors, and all of their respective subsidiaries, on a consolidated basis.

Rounding adjustments have been made in calculating some of the financial information included in the Offering Circular. As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements including, without limitation, words and expressions such as expect, believe, plan, intend, estimate, project, anticipate, may, will, would, could or similar words or statements, in particular, in the section entitled "*Description of the Group*" in this Offering Circular in relation to future events, the Issuer, the Guarantors, each of their Subsidiaries for the time being, the Group's prospects, its expected financial condition, its business strategies, the future developments of the Group's operations and industry and the future development of the general domestic, regional and global economy.

These statements are based on assumptions regarding the Group's present and future business strategy and the environment in which it expects to operate in the future. These matters and the Group's future results could

differ materially from those expressed or implied by these forward-looking statements and, although these forward-looking statements reflect its current view of future events, they are not a guarantee of future performance or other matters. In addition, the Group's future performance may be affected by various factors and risks including, without limitation, those discussed in the sections entitled "*Investment Considerations*" and "*Description of the Group*".

Should one or more of these or other risks or uncertainties materialise, or should any underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of these forward-looking statements.

In this Offering Circular, statements of, or references to, intentions of the Issuer or the Guarantors or those of any of the directors of any of them are made as at the date of this Offering Circular. Any such intentions may change in light of future developments.

Each of the Issuer, the Guarantors, the Arrangers and the Dealers expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in any Issuer's or any Guarantor's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based or any change in the intentions of the Issuer, the Guarantors or any of their respective Subsidiaries or directors.

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IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES (OTHER THAN THE AMTNS OR IN CIRCUMSTANCES WHERE SUCH ACTION COULD REASONABLY BE EXPECTED TO AFFECT THE PRICE OF NOTES OR OTHER SECURITIES TRADED IN AUSTRALIA OR ON A FINANCIAL MARKET (AS DEFINED IN THE CORPORATIONS ACT) OPERATED IN AUSTRALIA), THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION OR OVERALLOTMENT MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END AFTER A LIMITED PERIOD. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be incorporated in, and form part of, this Offering Circular:

(a) the most recently published audited consolidated annual financial statements of the Issuer, if published after the date of this Offering Circular, and, if published later, the most recently published reviewed consolidated interim financial statements of the Issuer, together with any audit or review reports prepared in connection therewith; and

(b) all supplements (other than any Pricing Supplement) or amendments to this Offering Circular circulated by the Issuer from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered office of the Issuer and the website of the SGX-ST at http://www.sgx.com and from the specified office of the Issuing and Paying Agent set out at the end of this Offering Circular.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. The Issuer, the Guarantors and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event a new Offering Circular or a supplement to the Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this Overview.

Issuer:	Victoria Power Networks (Finance) Pty Ltd
Guarantors	As at the date of this Offering Circular, the Guarantors of Notes issued under the Programme are set out under "*Initial Guarantors*" below. Additional Guarantors may be added and Guarantors may be released from their obligations pursuant to the Conditions. See Condition 3 (c) for further details.
Initial Guarantors:	Powercor Australia Ltd and CitiPower Pty Ltd in its personal capacity and in its capacity as trustee of The CitiPower Trust
Investment Considerations:	There are certain factors that may affect the Issuer's and the Guarantors' ability to fulfil their obligations in respect of Notes issued under the Programme and the Guarantees. These are set out under "Investment Considerations" below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "Investment Considerations" and include the fact that the Notes may not be a suitable investment for all intended investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
Description:	Euro Medium Term Note Programme
Arrangers:	J.P. Morgan Securities plc (In respect of Notes other than AMTNs only) J.P. Morgan Securities Australia Limited (ABN 61 003 245 234) (In respect of AMTNs only)
Dealers:	J.P. Morgan Securities plc and J.P. Morgan Securities Australia Limited (ABN 61 003 245 234), and any other Dealer appointed in accordance with the Dealer Agreement. The Issuer and the Guarantors may from time to time terminate the appointment of any Dealer under the Programme or appoint additional Dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to "Dealers" are to the above named Dealers and all persons appointed as a Dealer in respect of one or more Tranches

	or the whole Programme (in each case, whose appointment has not been terminated).
Issuing and Paying Agent:	The Bank of New York Mellon, London Branch (In the case of Notes other than AMTNs). BTA Institutional Services Australia Ltd (In the case of AMTNs).
Registrar:	The Bank of New York Mellon (Luxembourg) S.A. (In the case of Notes other than AMTNs). BTA Institutional Services Australia Ltd (In the case of AMTNs).
Transfer Agent:	The Bank of New York Mellon, London Branch.
Trustee:	The Bank of New York Mellon, London Branch.
Programme Size:	Up to €3,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Distribution/Method of Issue:	Notes may be distributed either by way of private placement or on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of the Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue date. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer, the Guarantors and the relevant Dealer(s).
Maturities:	Such maturities as may be agreed between the Issuer, the Guarantors and the relevant Dealer(s) as indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".

Issue Price:	The Notes may be issued on a fully-paid basis and at an issue price which may be at par or at a discount to, or premium over, par. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes:	The Notes other than the AMTNs may be issued in bearer form and/or registered form and the AMTNs will be issued in registered form only, each as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes or AMTNs. Bearer Notes will not be exchangeable for Registered Notes or AMTNs. AMTNs will not be exchangeable for Bearer Notes or Registered Notes.
Clearing Systems:	Clearstream, Luxembourg and Euroclear, in relation to any Tranche of Notes, such other clearing system as may be agreed between the Issuer, the Guarantors, the Trustee, the relevant Paying Agent and the relevant Dealer(s). Each Series of AMTNs will (unless otherwise specified in the applicable Pricing Supplement) be registered in the name of Austraclear Ltd and entered in the Austraclear System.
Initial Delivery of Notes:	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or Registered Notes may be deposited with a common depositary for Euroclear or Clearstream, Luxembourg. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Trustee, the relevant Paying Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer, the Guarantors and the relevant Dealer(s).
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. ("**ISDA**"), and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer, the Guarantors and the relevant Dealer(s). The margin (if any) relating to such floating rate will be agreed between the Issuer, the Guarantors and the relevant Dealer(s) for

	each Series of Floating Rate Notes and will be specified in the applicable Pricing Supplement.
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Notes in respect of each Interest Period, as agreed prior to issue by the Issuer, the Guarantors and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer, the Guarantors and the relevant Dealer(s).
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer, the Guarantors and the relevant Dealer(s) may agree and specified in the applicable Pricing Supplement.
Redemption:	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer, the Guarantors and the relevant Dealer(s). The terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Pricing Supplement. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Maturities*" above.
Denomination of Notes:	The Notes will be issued in such denominations as may be agreed between the Issuer, the Guarantors and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or

	regulations applicable to the relevant Specified Currency and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would require the publication of a prospectus under the Prospectus Directive (as defined below) will be €100,000 (or, in each case, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Notes will subject to certain conditions and exceptions be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 8 (*Taxation*). In the event that any such deduction is made, the Issuer or, as the case may be, the Guarantors will, save in certain limited circumstances provided in Condition 8 (*Taxation*), be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Notes will contain a negative pledge provision as further described in Condition 4 (*Negative Pledge*).
Cross Default:	The terms of the Notes will contain a cross default provision as further described in Condition 10 (iii) (*Event of Default and Enforcement*).
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4 (*Negative Pledge*) unsecured obligations of the Issuer and will rank pari passu among themselves and (save for certain obligations preferred by law) at least equally with all other unsecured and unsubordinated obligations of the Issuer, from time to time outstanding, as set out in Condition 3 (*Status*).
Status of the Guarantees:	The Notes will be unconditionally and (subject to the release of any Guarantor pursuant to the terms of the Trust Deed and in accordance with the Conditions) irrevocably guaranteed, on a joint and several basis, by the Guarantors. The payment obligations of each Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4 (*Negative Pledge*), at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of each Guarantor, present and future, other than those preferred by statute or applicable law.
Rating:	Notes issued under the Programme may be rated or unrated. Where an issue of a certain series of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme (if any) and (where applicable) such rating will be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be

	subject to suspension, change or withdrawal at any time by the assigning rating agency. Credit ratings are for distribution only to a person (a) who is not a "retail client" within the meaning of section 761G of the Corporations Act and is also a sophisticated investor, professional investor or other investor in respect of whom disclosure is not required under Parts 6D.2 or 7.9 of the Corporations Act, and (b) who is otherwise permitted to receive credit ratings in accordance with applicable law in any jurisdiction in which the person may be located. Anyone who is not such a person is not entitled to receive the Offering Circular and anyone who receives the Offering Circular must not distribute it to any person who is not entitled to receive it.
Listing and Admission to Trading:	Application has been made to the SGX-ST for permission to deal in, and quotation of, any Notes which are agreed at the time of issue thereof to be so listed on the SGX-ST. If such application is approved, such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. There is no assurance that the application to the Official List of the SGX-ST will be approved. Admission to the Official List of the SGX-ST and listing of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Programme or such Notes. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. If the application to the SGX-ST to list a particular series of Notes is approved, such Notes listed on the SGX-ST will be traded on the SGX-ST in a board lot size of at least S$200,000 (or its equivalent in other currencies). Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer, the Guarantors and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Use of Proceeds:	The net proceeds from the issue of Notes will be applied by the Issuer for general corporate purposes, or as may be specified in the applicable Pricing Supplement.
Governing Law:	The Notes (other than the AMTNs) and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes (other than non-contractual obligations arising out of or in connection with the AMTNs) and the Trust Deed will be governed by, and construed in accordance with, English law. The AMTNs and the Australian Deed Poll will be governed by, and construed in accordance with, the laws of Victoria, Australia.

Selling Restrictions:	Subject to the general restriction that the Notes are not an offer to the public, there are restrictions on the offer, sale and transfer of the Notes in the United States, Prohibition of Sales to EEA Retail Investors, the United Kingdom, Australia, Japan, Hong Kong, Singapore, the Netherlands, Switzerland and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*". Each of the Issuer and the Guarantors is Category 2 for the purposes of Regulation S under the Securities Act, as amended. The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "**D Rules**") unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the "**C Rules**") or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

INVESTMENT CONSIDERATIONS

Each of the Issuer and the Guarantors believes that the following factors may affect their ability to fulfil their obligations under Notes issued under the Programme, or their Guarantee thereof, which may in turn result in investors losing the value of their investment. Most of these factors are contingencies which may or may not occur and none of the Issuer nor any of the Guarantors is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which the Issuer and Guarantors believe to be material for the purpose of assessing the market risks associated with the Notes issued under the Programme are also described below.

Each of the Issuer and the Guarantors believes that the factors described below represent the principal risks inherent in investing in the Notes issued under the Programme, but the inability of the Issuer or any of the Guarantors to pay interest, principal or other amounts on or in connection with the Notes or their Guarantees thereof may occur for other reasons as a result of the occurrence of events outside the Issuer's and the Guarantors' control which may not have been considered significant risks by the Issuer and the Guarantors based on information currently available to them or which they may not currently anticipate. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer and the Guarantors may not be aware of all relevant factors. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

Please refer to "Description of the Group" for definitions of capitalised terms used but not otherwise defined in this section.

Factors that may affect the Issuer's ability to fulfil its obligations under the Notes and the Guarantors' ability to fulfil their obligations under the Guarantee

Regulatory risks

Revenue determination and tariff approval

The Australian Energy Regulator ("**AER**") is responsible for setting the amount of revenue or prices network businesses can recover from customers over a regulatory control period (typically five years). Key components of the allowed revenue include the rate of return, and capital and operating expenditure. If the AER's revenue or price determinations do not accurately reflect the operating and capital expenditures of the CitiPower and Powercor distribution networks, or financing requirements, the determination will adversely affect the Issuer's profits and financial position.

The AER also approves annual network pricing proposals and network tariff structures. It is material to the Group revenue profile that tariffs allow the maximum allowable revenue to be recovered in each regulatory year.

The AER's revenue determination process is discussed in further detail in the '*Description of the Group'* section. This section also outlines recent legislative changes that remove the rights for the Group to apply to the Australian Competition Tribunal to review the merits of AER decisions. The Group, however, may still seek judicial review of the AER's decisions through the Federal Court.

Regulatory reforms

The COAG Energy Council is responsible for the development of the national policy for the regulation of electricity distribution. These policies may be enacted through the National Electricity Law ("**NEL**"), or through various statutory instruments, such as the National Electricity Rules ("**NER**") and guidelines. Changes

to these statutory instruments may also be introduced by a variety of industry stakeholders, following extensive consultation requirements.

The Victorian Government also retains the discretion to: (a) accept or reject changes to the NEL to the extent that those changes would apply to distribution businesses operating in Victoria; and (b) to make regulatory changes that are unique to and apply only to distribution businesses operating in Victoria.

Regulatory reform exposes the Group to the risk of regulatory requirements imposing changes that may not be consistent with its commercial objectives and could adversely affect the financial position of the Issuer.

Service Charges and Contestability of 'non-distribution network services'

Service charges in relation to 'alternative control services' (being services provided to a particular customer, such as connection or disconnection services) are not subject to the maximum allowable revenue but to varying degrees are regulated by the AER. In any event these service charges must be determined by the Group in a manner that is consistent with the requirements of the NER. Material changes under the NEL to how these service charges are recovered could impact the volume of services provided by the Group, the associated revenue and the Issuer's financial position.

Metering contestability

Metering services have been exclusively provided to the market by the Group in respect of the CitiPower and Powercor distribution networks under the Advanced Metering Infrastructure ("**AMI**") program administered by the Victorian Government. In December 2017, national arrangements were introduced to enable competition in metering and associated services. The Victorian Government, however, has deferred the introduction of metering competition in Victoria until at least 2021. An increase in competition in this space may adversely affect the revenue generated by the Group and the Issuer's financial position, however, any customer choosing an alternate meter services provider may be required to pay an exit fee to the group.

Financial and performance incentive schemes and reduced revenues

The Group is currently subject to five performance incentive schemes; the Service Target Performance Incentive Scheme ("**STPIS**"), the Efficiency Benefit Sharing Scheme ("**EBSS**"), the Capital Efficiency Sharing Scheme ("**CESS**"), the F-factor Scheme and the Guaranteed Service Level ("**GSL**") scheme.

Under the STPIS, revenue is increased (or decreased) based on reliability performance against an AER established benchmark. The EBSS and CESS schemes reward (or penalise) distributors based on operating and capital expenditure performance relative to the AER's revenue determination. The STIPIS, EBSS and CESS work together to balance the incentives for under or over investment in the network.

The F-factor Scheme is designed to incentivise a reduction in the number of fires started by electricity distribution networks. Under the current F-factor Scheme, respective fire start targets are set by the Victorian Government.

The Victorian GSL payments scheme requires payments to be made directly to customers where the service received by those customers is not at a specified threshold. These thresholds are set by the ESC.

Poor performance against these incentive targets could impact on the Issuer's revenue and the reputation of the Group.

Use of System Agreements and Deemed Distribution Contracts

The commercial and financial terms of engagement between the respective Group distribution license holders and their customers are set out in two contracts: (1) the Use of System Agreements ("**UoS Agreement**") entered into with the respective Energy Retailers who have retail customers connected to the CitiPower and Powercor

distribution networks; and (2) the deemed distribution contract ("**DDC**") established with all consumers connected to the respective distribution network (unless a separate agreement between the distributor and the customer has been reached which is uncommon). The form of the UoS Agreement and the DCC are regulated by the Essential Services Commission ("**ESC**") of Victoria pursuant to the *Electricity Industry Act 2000* (Vic).

The ESC has published a standard form UoS Agreement which has for the most part been adopted by the Group as the contract entered into with the respective Energy Retailers. The terms of the UoS Agreement adopted by the Group do not derogate or waive the immunity from liability that CitiPower and Powercor benefit from under the statutory provisions or vary the liability exposure under common law; but does provide that a distributor will indemnify a Retailer in the following limited circumstances: (a) any claim made by a customer against a Retailer where and only to the extent that the distributor would have been liable to a customer under a DDC; and (b) a breach by the Retailer of the statutory implied warranties that apply to goods such as electricity with respect to fitness for purpose and quality. Importantly, this indemnity is not absolute and requires the Retailer to exclude such liability in its contract with its customer to the maximum extent permitted by law.

The DDC is established under the Electricity Industry Act 2000 (Vic) and sets out the terms and conditions by which CitiPower and Powercor maintain connection to the customer's address and certain rights and obligations relating to the supply of electricity. The terms of this contract and any changes to it must be approved by the ESC. This is a deemed contract and is not negotiated with customers and it is not required to be signed by the customer. Material changes to the financial and commercial terms of the UoS Agreement and/or the DDC could impact the way the Group recovers its revenue from the market which may affect the financial position of the Issuer.

Licensing requirements

To operate the CitiPower and Powercor electricity distribution networks, the Group is dependent on maintaining an electricity distribution licence for each network. Those licences are currently issued by the ESC. The ESC has the power to revoke or vary a licence in limited circumstances and only then where it is satisfied that the revocation is necessary having regard to particular statutory objectives which include things such as: (i) promoting the long term interests of consumers; (ii) the financial viability of the industry; and (iii) incentives for long term investment in the industry. Similarly the ESC may only vary a licence if the variation is necessary in the context of these statutory objectives and it has also provided the licence holder the opportunity to make representations on the matter. Revocation of a licence or a material variation to a licence that is inconsistent with the Group's commercial objectives would adversely affect the Issuer's profits and financial position.

Operational and occupational health and safety risks

By their nature the electricity distribution activities of the Group are subject to fire, explosion, power line failure and third parties damaging network assets. The occurrence of such an event could adversely affect the business operations of the Group and the Issuer's profits and financial position. To mitigate these risks the Group operates a number of information technology systems, applications and business processes to monitor and manage the distribution network infrastructure for its critical functions. These systems also include business processes designed to ensure a rapid response to any of these risks to reduce the period of time customers are without supply and to ensure that commercially prudent steps are taken to recover losses caused by third parties.

The operation and maintenance of the Group electricity distribution networks is subject to public safety risks and occupational health and safety risks such as personnel being exposed to the risk of electrocution and asbestosis as well as the inherently hazardous nature of maintenance and construction work (eg personnel working at heights, undertaking construction work, undertaking work on electricity assets and operating heavy machinery). The risk of accidents occurring and long-term injuries being sustained by personnel or the public is an inherent risk that is actively managed by the Group and is subject to State and National laws. Failure to comply with health and safety statutory obligations may result in non-compliance penalties (monetary and

criminal or civil sanctions). Actual or alleged violations arising under any health and safety laws may cause interruptions to the business operations of the Group and adversely affect its reputation. Such matters could adversely affect the business operations of the Group and the Issuer's financial position.

Electric and Magnetic Fields ("**EMFs**") are found wherever there is electricity. For a long time controversy has existed over whether or not EMFs are detrimental to health. Based on findings of credible public health authorities, the body of scientific research has not established that exposure to EMFs at levels below recognised guidelines cause or contribute to any adverse health effects. Given the nature of the assets owned and operated by the Group and the public and employee health concerns in respect of exposure to EMFs, the Group has adopted a policy of 'prudence' and implemented business processes and safe work practices to manage EMF exposure consistent with industry guidelines published by the Australian Radiation Protection and Nuclear Safety Agency ("**ARPANSA**"). To the extent that advances in EMF scientific studies were radically revised this could materially affect the business operations and reputation of the Group and the financial position of the Issuer.

Waste and hazardous materials

The business operations of the Group are required to comply with the environmental laws and regulations concerning the protection of the environment, including the release of air emissions, noise pollution, soil and groundwater contamination and waste water as well as the generation, storage, handling, transportation, treatment and disposal of waste and hazardous materials. Various materials and substances that are hazardous or environmentally sensitive such as oil, odorant, polychlorinated biphenyls, mercury, SF6, polyaromatic hydrocarbons and asbestos have been used or are contained in the facilities and sites currently and historically owned and operated by the Group. A major environmental hazard could expose the Group to site remediation costs, result in penalties (monetary and civil or criminal sanctions) being incurred, in the case of either actual or alleged violations of environmental laws interruptions to business operations and damage to reputation. To mitigate this risk the Group operates a number of systems, applications and business processes to monitor and manage environmental risk. However the occurrence of a major environmental hazard could adversely affect the business operations of the Group and the Issuer's financial position.

Outsourcing or contractor risks

The Group outsources part of its business operations to third parties. Examples include information technology development and support, property maintenance, construction, vegetation management and electricity asset maintenance. Failure by a service provider to manage their business operations and to supply and manage the provision of services to the Group in accordance with their contractual obligations could adversely impact the business operations of the Group and financial position of the Issuer.

Electricity Asset Maintenance and Construction Works

Electricity distribution networks require ongoing maintenance and construction works. Maintenance and construction works are undertaken on the CitiPower and Powercor networks by the Group and in some circumstances by third parties under contract arrangement. Failure to undertake maintenance and construction works to the appropriate standards or in a timely manner could result in network failures which could adversely impact the business operations of the Group and financial position of the Issuer. In this regard the Group has established policies, practices and guidelines to manage its maintenance and construction works.

In addition to conducting maintenance and construction works on its own networks the Group also offers electricity asset maintenance and construction works to third parties. Failure to undertake these works to industry and pre-agreed contractual standards and agreed time frames could (in aggregate) adversely affect the business operations of the Group.

Network failures and unplanned outages (including network disruptions)

Network failures due to asset faults, planned or unplanned outages or damage to network assets caused unintentionally by third parties or by sabotage may result in the loss of supply of electricity to customers connected to the Group distribution networks, asset and property damage and in some instances bushfires. If this risk is not managed correctly the rectification and remediation costs could be substantial. The realisation of this risk could adversely affect the Group's business operations and reputation and to the extent not covered by insurances or recoverable from the party who caused the damage, result in costs that could adversely affect the Issuer's financial position. Business systems and processes have been implemented to monitor, manage and mitigate this risk.

Potential natural disasters or terrorist attacks

The Powercor distribution network extends across Western Victoria. This area is prone to extreme weather events, particularly bushfires. More frequent extreme weather events are predicted that may adversely affect the distribution network infrastructure increasing the likelihood of network outages and fire hazards. Business processes and systems have been put in place to monitor and manage the risks associated with extreme weather events including maintaining insurances to cover bushfire liability which is reviewed periodically. Insurance coverage may not fully cover all liabilities incurred with respect to extreme weather events. To this end major damage to assets and loss of supply and significant third party claims associated with extreme weather events could adversely affect the Group's business operations and reputation and the Issuer's financial position.

Terrorist acts on the Group's distribution network assets could interrupt supply to customers and or result in damage of a third party's property that are connected to the Group distribution network. Depending on the scale of the damage and its location, the cost and time involved in remediating any damage to network assets and assessing third party claims could adversely affect the Group's business operations and reputation and to the extent not covered by insurances the Issuer's financial position.

In certain circumstances the AER may enable the Issuer to recover some of the costs associated with natural disasters or terrorist attacks.

Information Technology

The information technology requirements of the Group include: (i) field mobile computing; (ii) the collection and storage of meter data; (iii) customer data and information; (iv) web portals; (v) intercompany and business to business communications and reporting; (vi) electronic mapping systems; (vii) maintenance and outage management systems in respect of the existing electricity distribution networks managed by the Group and construction and design in respect of augmentation works on those networks; (viii) financial information, personnel management, accounting and reporting capabilities**.**

A security breach or a break-down of the Group information technology systems could adversely affect the business operations of the Group. To mitigate these risks the Group has implemented policies, practices and technologies in line with security industry-standards along with an active program of audit/review by third party experts to test the completeness of the information technology solutions and strategies implemented for the security and resilience of those systems. These policies, practices and technologies are continually reviewed and adjusted as new risks and threats become apparent.

Litigation and other legal claims

The type of claims the Group may have to defend include: (i) economic loss claims where there is interruption to the supply of power giving rise to economic loss; (ii) breach of contract in relation to non-regulated services provided by the Group; (iii) property damage claims including those associated with bushfires; (iv) personal injury claims from members of the public and work cover claims including claims relating to asbestosis from

employees and contractors; (v) employee relations related claims; (vi) regulatory claims; (vii) tax related claims; and (viii) class actions.

The types of claims the Group may commence from time to time include economic loss and property damage claims. Protracted litigation or a material increase in the number of claims made against the Group could adversely affect the reputation of the Group and the Issuer's financial position.

Insurance coverage

The Group maintains insurance that it considers prudent to protect against major operating and other risks. However not all risks are insured or insurable. In particular, the Group does not carry insurance for low value assets. Due to changeable insurance market conditions, the Group cannot be certain that adequate insurance coverage for potential losses and liabilities will be available in the future on commercially reasonable terms, and may also elect to self-insure and/or carry increased deductibles. If the Group experiences a loss in the future, the proceeds of the applicable insurance policies, if any, may not be adequate to cover replacement costs, lost revenues, increased expenses or liabilities to third parties.

Relationship with shareholders

The Group is ultimately 51 percent owned by Cheung Kong Infrastructure Holdings Ltd ("**CKI**") and Power Assets Holdings Ltd ("**PAH**") (formerly known as Hong Kong Electric Holdings Ltd) through Victoria Power Networks Pty Ltd. The remaining 49 percent is ultimately owned by Spark Infrastructure. CKI and PAH are members of the Cheung Kong Group and the companies are listed on the Hong Kong Stock Exchange. Spark Infrastructure was established on 21 December 2005 to develop a diversified portfolio of international utility infrastructure assets. CKI, PAH and Spark Infrastructure (the "**Shareholders**") have put in place agreements, business practices and policies to manage their interests in the Group and their relationship as shareholders. Whilst the Shareholders have a proven track record in their industries and in their roles as Shareholders of the Group and other energy distribution and transmission companies in Australia, there can be no assurance that the Shareholders will continue to remain aligned on the business goals, interests and objectives of the Group. This may have an impact on the Group's ongoing financial condition or operations.

The outbreak, or threatened outbreak, of any severe communicable disease could materially and adversely affect our business, financial condition and results of operations.

The Group's business is subject to general economic and social conditions. The outbreak, or threatened outbreak, of any severe communicable disease could materially and adversely affect overall business sentiment and environment.

As of the date of this Offering Circular, there is an ongoing outbreak of the Novel Coronavirus ("**Covid-19**") which has resulted in a deterioration of the political, socio-economic and financial situation globally. As of the date of this Offering Circular, the business remains operational and is expected to remain operational as the provider of an essential service. However, given the uncertainties as to the development of the Covid-19 outbreak, it is difficult to predict how long these conditions will exist and the extent to which we may be affected.

Efforts to minimise entry into offices and facilities of our staff may lead to a disruption of our business if prolonged. If any of our employees are suspected of contracting Covid-19 or an epidemic disease, this could require us to quarantine some or all these employees or disinfect the facilities used for our operations. The Group has business processes and systems in place to manage the risks associated with events of this nature however the occurrence of such events could lead to additional costs. The spread of any severe communicable

disease in Australia may also affect the operations of the Group's customers and suppliers, which could materially and adversely affect the Group's business, financial condition, and results of operations.

Financial Risks

Risks in funding future capital needs

The Issuer relies on bank and debt capital markets to fund the Group's business activities, with total outstanding senior debt of A$4.6bn[1] at 31 December 2019. The ability to access debt markets and obtain funding may be limited in certain circumstances for example: (i) a material adverse change in the Group business profile; (ii) a reduction in the Issuer's credit rating; or (iii) during periods of increased stress, uncertainty and dislocation in global capital markets. The Group actively mitigates these risks by restricting the amount of debt maturities within any 12 month period and diversifying debt funding sources.

Liquidity Risk

The Issuer uses a combination of operating cash flows and committed credit lines with domestic and international banks to cover short term liquidity requirements. A reluctance of banks to provide credit lines or deterioration in operating cash flows could adversely affect the Issuer's liquidity position. The Group's Board of Directors has adopted what it believes to be an appropriate liquidity risk management framework to manage the Group's funding and liquidity requirements. The Group actively manages liquidity risk including by: (i) maintaining cash reserves, banking and reserve borrowing facilities and (ii) continuously monitoring forecast and actual cash flows.

Currency Fluctuations

Foreign exchange risk arises from recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Group undertakes certain transactions denominated in foreign currencies, primarily US Dollars, from which exposure to exchange rate fluctuations arise. The Group enters into the following derivative transactions to manage foreign currency risks: (i) cross currency swaps to eliminate all foreign currency risks associated with foreign currency denominated borrowings; and (ii) foreign currency forward contracts to hedge the exchange rate risk arising from payables and receivables denominated in foreign currencies.

Interest Rate Risk

The Group is exposed to interest rate risk primarily due to borrowing funds that reference variable interest rates. Interest rate risk is actively managed through the use of interest rate swap contracts and hedging activities are evaluated regularly to ensure that the Group is not exposed to excess risk from interest rate volatility.

Financial Risks - Changes in Credit Ratings

As at the date of this Offering Circular the Issuer has an investment grade credit rating from Standard and Poor's Australia Pty Limited. Credit ratings are subject to revision, suspension or withdrawal by the rating agency and the methodologies applied to derive and assign credit ratings can change. A rating agency downgrade could adversely affect the Issuer's cost of funding, sources of liquidity and ability to access debt capital markets.

Accounting Standards

The Issuer prepares financial statements in accordance with the Corporations Act 2001, Australian Accounting Standards and Australian Accounting Interpretations. Changes to accounting standards and reporting requirements may impact the Issuer's Income Statement and/or Statement of Financial Position.

[1] Outstanding senior debt ($4.9bn) inclusive of cross currency swap marked to market value ($0.3bn).

Hedge Accounting and income statement volatility

Derivative financial instruments may be utilised by the Issuer to manage and mitigate financial market risks. When executing derivative transactions, hedge accounting requirements are considered to maximise hedge effectiveness and limit the amount residual income statement volatility. Although derivative instruments are executed to economically hedge financial risk exposures, hedge accounting standards and reporting requirements are complex and in certain circumstances the financial reporting outcomes of derivative instruments may result in income statement volatility.

Australian Taxation Office matters

VPN meets its tax obligations and tax reporting requirements and any material outstanding matters are referenced in the financial statements.

Counterparty Credit Risk

The Issuer generates credit risk exposures primarily from accounts receivable owing from a small number of large energy retailers and exposures to derivative counterparties which fluctuate based on changes in underlying interest rates and exchange rates. Accordingly the Group is exposed to counterparty credit risk in the event that energy retailers or derivative counterparties are unable to meet financial obligations to the Group when they become due and payable. Non-performance by one of the Group's material counterparties could have a material adverse impact on Group earnings. The Issuer actively monitors counterparty credit risk and actively assesses credit and tenor limits.

Retirement schemes

Certain qualifying employees of the Group are members of defined benefit superannuation plans. Under the plans, employees are entitled to retirement benefits based on their average salary over a two year period prior to retirement or resignation. The defined benefit superannuation plans are funded based on actuarial forecasts of various factors including future plan assets, interest rates and salary increases and there is a legal obligation to make up any deficit in the plans. The defined benefit superannuation plans have been closed to new employees since 1994.

There are a number of risks to which the defined benefit plan exposes the Group. The more significant risks relating to the defined benefits are: (i) *Investment risk* - The risk that investment returns will be lower than assumed and the Group will need to increase contributions to offset this shortfall; (ii) *Salary growth risk* - The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions; (iii) *Legislative risk* - The risk is that legislative changes could be made which increase the cost of providing the defined benefits; (iv) *Pension risks* – The risks are firstly that pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period. Secondly, that a greater proportion of eligible members will elect to take a pension benefit, which is generally more valuable than the corresponding lump sum benefit; (v) *Inflation risk* - The risk that inflation is higher than anticipated, increasing pension payments, and thereby requiring additional employer contributions.

The defined benefit plans had a surplus balance of $10.4 million recognised in the Statement of Financial Position as at 31 December 2019. All other employees are part of defined contribution schemes, where the individual bears the investment risk of plan assets.

Retention of staff

The ongoing success of the Group is reliant on its ability to attract, develop and retain employees. Current staff turnover levels are low with the average term of service currently 12.7 years, however a failure to retain skilled and experienced staff without suitable replacement in the future could have an adverse impact on its operations.

Industrial Relations Actions

Approximately 60% of Group employees operate under enterprise bargaining agreements that govern pay and conditions. The agreements are negotiated every three or four years (depending on the duration of the agreement) and it is only during this period that industrial action can be lawfully enacted. The four key unions party to these agreements are Professionals Australia (formerly known as the Association of Professional Engineers, Scientists and Managers Australia), Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia ("**CEPU**"), the Australian Municipal, Administrative, Clerical and Services Union ("**ASU**") and the National Union of Workers ("**NUW**"). Whilst the Group strives to maintain good working relationships with the Unions and meet regularly to discuss and resolve issues, there is the still potential for industrial action in accordance with enterprise bargaining agreements which may adversely affect the Group's operations and financial performance.

Disruptive technology and changes to network demand

The development and emergence of disruptive technologies offer consumers alternatives from traditional electricity supply which may reduce future electricity consumption and demand from the grid. There has been a proliferation of residential solar generation following state and federal government incentives and significant improvements in battery technology and storage capabilities have the potential to reduce traditional demand by consumers. The AER has adopted a revenue cap aimed at removing volume risk for the current regulatory reset period (January 2016 to December 2020), and has stated it will again apply a revenue cap for the next regulatory period (July 2021 to June 2026). Between regulatory periods, further advancement and increased utilisation of disruptive technologies have the potential to reduce electricity consumption and demand from the grid and therefore adversely affect future revenue profiles of the Group.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio. Each potential investor

should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Reliance on the Guarantee

The Notes are guaranteed pursuant to the Guarantee. The Issuer has minimal assets other than cash deposits and its investments in the Guarantors. If any or all of the Guarantors' financial condition deteriorates, it is possible that the Issuer may not have access to the resources or liquidity to pay the amounts required under the Notes and the Guarantors, individually or collectively, may not have the financial resources or liquidity to pay the amounts required under the Guarantee. Consequently, investors in the Notes may suffer direct and materially adverse consequences.

The insolvency laws of Australia may differ from equivalent laws of another jurisdiction with which Noteholders may be familiar

Insolvency proceedings relating to the Issuer or Australian members of the Group who are Guarantors would involve Australian insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy law or the insolvency laws of other jurisdictions with which prospective investors may be familiar.

In certain circumstances Guarantors may be released from their obligations under the Guarantee

A Guarantor may, at the option of the Issuer, be released from liability under the Guarantee:

- If no Event of Default has occurred and is subsisting as at the proposed date of release of that Guarantor (the "**Released Guarantor**"); and
- the aggregate of all current and non-current assets on a consolidated basis after eliminating all inter-company transactions of the remaining Guarantors is not less than 90 per cent. of the aggregate of all current and non-current assets on a consolidated basis after eliminating all inter-company transactions of each entity comprising the Group; and
- the aggregate operating profit (loss) of the remaining Guarantors before income tax (subject to certain adjustments) in respect of the relevant period is not less than 90 per cent. of aggregate operating profit (loss) of the Group before income tax (subject to certain adjustments) in respect of such period,

each as set out more fully in Condition 3 and the Trust Deed.

In the circumstances above the Released Guarantor shall cease to be a Guarantor and to be bound by, or have any obligations or liability under, the Guarantee, and all such obligations and liabilities will be discharged.

The members of the Group that act as Guarantors from time to time may change without the consent of the Noteholders provided that the requirements in Condition 3 and the Trust Deed are satisfied.

Risks related to the enforceability of the Guarantee generally

The enforceability of the Guarantee is subject to various limitations including:

- statutes of limitations, laws relating to administration, moratoria, bankruptcy, liquidation, insolvency, receivership, reorganisation, schemes of arrangement and similar laws affecting generally creditors' and counterparties' rights and specific court orders that may be made under such laws;
- defences such as set-off, laches, forbearance, election, abatement or counterclaim, the doctrine of frustration and the doctrine of estoppel and waiver and the fact that guarantees and certain other documents and obligations may be discharged as a matter of law in certain circumstances; and

- general law and statutory duties, obligations, prohibitions and limitations affecting the enforceability of, and exercise of rights under, guarantees generally; and
- the Guarantee or a transaction connected with the Guarantee may be voidable at the option of a party, or may be set aside by a court on application by a party, or a party may be entitled to rescind the Guarantee or a security interest and amounts paid or property transferred under it may be recovered by that party:
    - if that party entered into the Guarantee or transaction as a result of a mistake or another party's misrepresentation or as a result of fraud, duress or unreasonable or unconscionable conduct or misleading or deceptive conduct on the part of another party (or of a third person of which another party has actual or constructive knowledge) or as a result of a breach by another party (or of a third person of which another party has actual or constructive knowledge) of any duty owed to that party; or
    - if that party's entry into the Guarantee or a transaction in connection with it constitutes an 'insolvent transaction' or an 'unfair loan' or an 'unreasonable director-related transaction' within the meaning of sections 588FC or 588FD or 588FDA respectively of the Corporations Act and the party is subsequently wound up.

Ranking of claims

The Notes are unsecured obligations of the Issuer and the guarantees of the Notes are unsecured obligations of the relevant Guarantors.

Although the terms and conditions of the Notes restrict the Issuer and the Guarantors granting security to secure other capital markets indebtedness, there is no restriction on the Issuer or Guarantors granting security to secure other obligations. To the extent such security was granted, the obligations secured thereby would rank ahead of the Notes and guarantees provided by the Guarantors.

To the extent that assets are held by Subsidiaries of the Guarantors other than the Issuer and the Guarantors, those assets would only be available to meet claims of Noteholders after the satisfaction of all liabilities of such subsidiaries and the return of any surplus assets as equity to the holding company of the Subsidiary that is a Guarantor (if any). There is no restriction on the liabilities that may be incurred by Subsidiaries that are not Guarantors.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a

"**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest or less interest than expected;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) they may lose all or a substantial portion of their principal;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Any failure by an investor to pay any subsequent instalment of the issue price in respect of his Notes could result in such investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes may have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new

floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

The regulation and reform of "benchmark" rates of interest and indices may adversely affect the value of Notes linked to or referencing such "benchmarks"

Interest rates and indices which are deemed to be or used as "benchmarks", are the subject of recent international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Note linked to or referencing such a benchmark.

More broadly, any of the international reforms or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. For example, the sustainability of the London interbank offered rate ("**LIBOR**") has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark. Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to the benchmark; (ii) trigger changes in the rules or methodologies used in the benchmark or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by any international reforms in making any investment decision with respect to any Notes linked to or referencing a benchmark.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver

or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed or the Australian Deed Poll or any other document, or (ii) determine, without any such consent as aforesaid, that any Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee having regard to its rights under the Trust Deed to obtain advice from professional advisers, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, and whether or not it would be so materially prejudicial to do so, or (iii) any modification to the provisions of the Notes or the Trust Deed or the Australian Deed Poll or any other document which is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law, or (iv) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 15 (Meetings of Noteholders, Modification, Waiver and Substitution).

Change of law

The Terms and Conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular and any such change could materially adversely impact the value of any Notes affected by it.

Notes where denominations involve integral multiples: definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination (as described in the applicable Final Terms) plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Trustee's actions

In certain circumstances (including the giving of notice to the Issuer and the Guarantors pursuant to Condition 11 (Events of Default and Enforcement)), the Trustee may (at its sole discretion) request the Noteholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes actions on behalf of the Noteholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or pre-funded to its satisfaction. Even if the Noteholders agree to indemnify and/or provide security to and/or pre-fund the Trustee, the time taken to agree the indemnity and/or security and/or pre-funding may impact on when such actions are taken.

The Trustee may decline to take action requested by the Noteholders, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations and to the extent permitted by the agreements and the applicable law, it will be for the holders of the Notes to take such actions directly.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes and the Guarantors will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the Investor's Currency) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer or the Guarantors to make payments in respect of the Notes or the Guarantee. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Issuer, the Guarantors or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

USE OF PROCEEDS

The net proceeds from the issue of Notes will be applied by the Issuer for general corporate purposes, or as may be specified in the applicable Pricing Supplement.

SELECTED FINANCIAL INFORMATION

The summary financial information presented below is as of and for the financial year ended 31 December 2017 ("**FY2017**"), 31 December 2018 ("**FY2018**"), and 31 December 2019 ("**FY2019**") and has been derived from consolidated financial statements of the Issuer, which includes Powercor Australia Ltd, CHED Services Pty Ltd, Powercor Networks Services Pty Ltd, Energy Solutions Pty Ltd, CitiPower Pty Ltd, and The CitiPower Trust. The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ("**AASB**") and other authoritative pronouncements of the Australian Accounting Standards Board and comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. The summary financial information presented in this section "Summary Financial Information" should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and accompanying notes for the relevant period.

Victoria Power Networks (Finance) Income Statement	**2019** **A$M**	**2018** **A$M**	**2017** **A$M**
Revenue from distribution related activities			
Distribution revenue	962	923	903
Prescribed metering	86	93	103
Alternative control services	61	57	51
	1,109	**1,072**	**1,057**
Other Revenue			
Construction and maintenance revenue	232	159	85
Service level agreement revenue - related party	29	34	21
Other revenue	22	23	44
	283	**216**	**150**
Total revenue from continuing operations (excluding transmission revenue and interest income)	**1,392**	**1,288**	**1,207**
Transmission revenue	288	288	301
Interest income	67	247	36
Total revenue from continuing operations	**1,746**	**1,823**	**1,544**
Total – Other (losses)/gains	6	(1)	6
Expenses (excluding Transmission Fees)	(543)	(456)	(432)
Transmission Fees	(288)	(288)	(301)
Profit (before interest expense, tax, depreciation and amortisation)	**921**	**1,078**	**817**
Depreciation and amortisation	(316)	(325)	(302)
Interest and finance expense – external party	(164)	(164)	(156)
Interest and finance expense – related party	(71)	(263)	(38)
Interest expenses - leases	(4)	0	0
Profit before income tax	**366**	**326**	**321**
Income tax expense	(110)	(98)	(96)
Profit for the Year	**256**	**228**	**225**

Statement of Financial Position

	2019 A$M	2018 A$M	2017 A$M
ASSETS			
Current assets			
Cash and cash equivalents	62	58	30
Trade and other receivables	161	161	152
Inventories	47	46	37
Derivative financial instruments	88	32	119
Other assets	54	22	25
Total current assets	**411**	**318**	**363**
Non-current assets			
Derivative financial instruments	279	270	181
Other financial assets	-	-	1
Property, plant and equipment	7,095	6,893	6,714
Intangible assets	820	825	833
Right-of-use assets	68	0	0
Retirement benefit assets	10	27	27
Other assets	0	1	0
Total non-current assets	**8,273**	**8,016**	**7,755**
Total assets	**8,684**	**8,334**	**8,118**
LIABILITIES			
Current liabilities			
Trade and other payables	594	495	686
Borrowings	994	1,081	1,230
Derivative financial instruments	4	1	1
Provisions	102	94	93
Contract liabilities	35	10	20
Lease liabilities	5	0	0
Other financial liabilities	0	1	0
Total current liabilities	**1,735**	**1,682**	**2,031**
Non-current liabilities			
Trade and other payables	1	43	25
Borrowings	3,923	3,626	3,204
Contract liabilities	3	3	17
Derivative financial instruments	199	82	95
Deferred tax liabilities	714	721	766
Provisions	18	18	19
Lease liabilities	80	0	0
Total non-current liabilities	**4,937**	**4,493**	**4,126**
Total liabilities	**6,672**	**6,176**	**6,157**
Net assets	**2,012**	**2,158**	**1,961**
EQUITY			
Issued capital	1,639	1,639	1,639
Other reserves	(129)	(34)	2
Retained earnings / (accumulated losses)	501	551	319
Non-Controlling Interests	2	1	1
Total equity	**2,013**	**2,158**	**1,961**

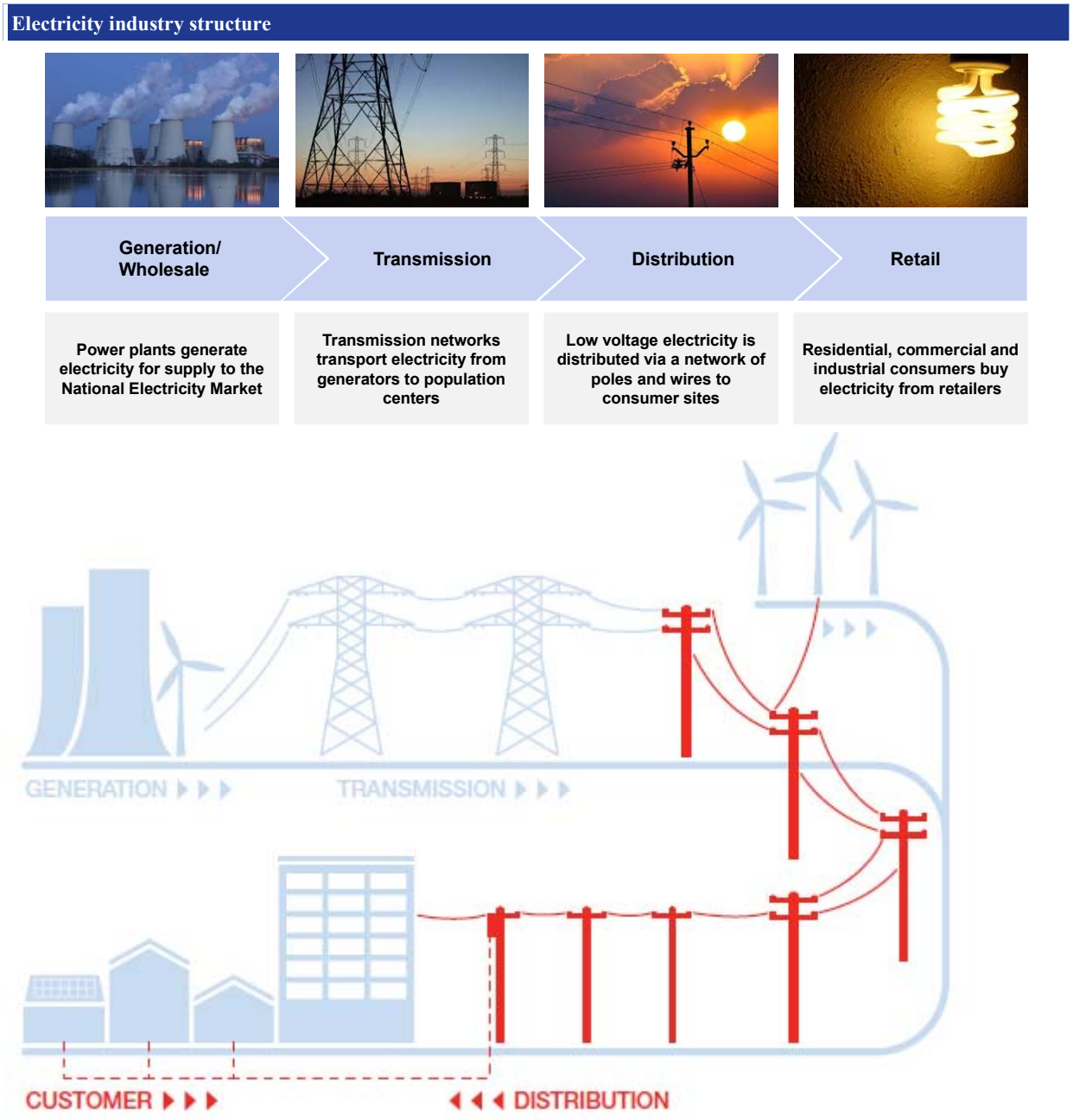
Statement of Cash Flows	2019 A$M	2018 A$M	2017 A$M
Cash flow from operating activities	513	458	701
Cash flow from investing activities	(498)	(479)	(419)
Cash flow from financing activities	(11)	48	(303)
Net increase/(decrease) in cash held	**4**	**28**	**(21)**

DESCRIPTION OF THE GROUP

Overview of the Australian electricity industry

Overview

The electricity supply chain comprises four segments as illustrated below.



The Issuer's subsidiaries, CitiPower and Powercor, operate in the distribution segment only. The Issuer acts as the Group's common funding vehicle and is wholly owned by Victoria Power Networks Pty Ltd ("**VPN**"). See '*Business Overview*' for further information on the group structure.

Generation

Generation companies produce electricity from sources such as coal, wind or sun and then sell it to the National Electricity Market ("**NEM**"). The NEM is a wholesale market for the supply and purchase of electricity, combined with an open access regime for the use of the transmission and distribution networks in Victoria, South Australia, New South Wales, Queensland, Tasmania and the Australian Capital Territory.

Transmission

Transmission networks transport electricity at high-voltage from generators to distribution networks. In a few cases, large businesses such as aluminum smelters are directly connected to the transmission network.

Distribution

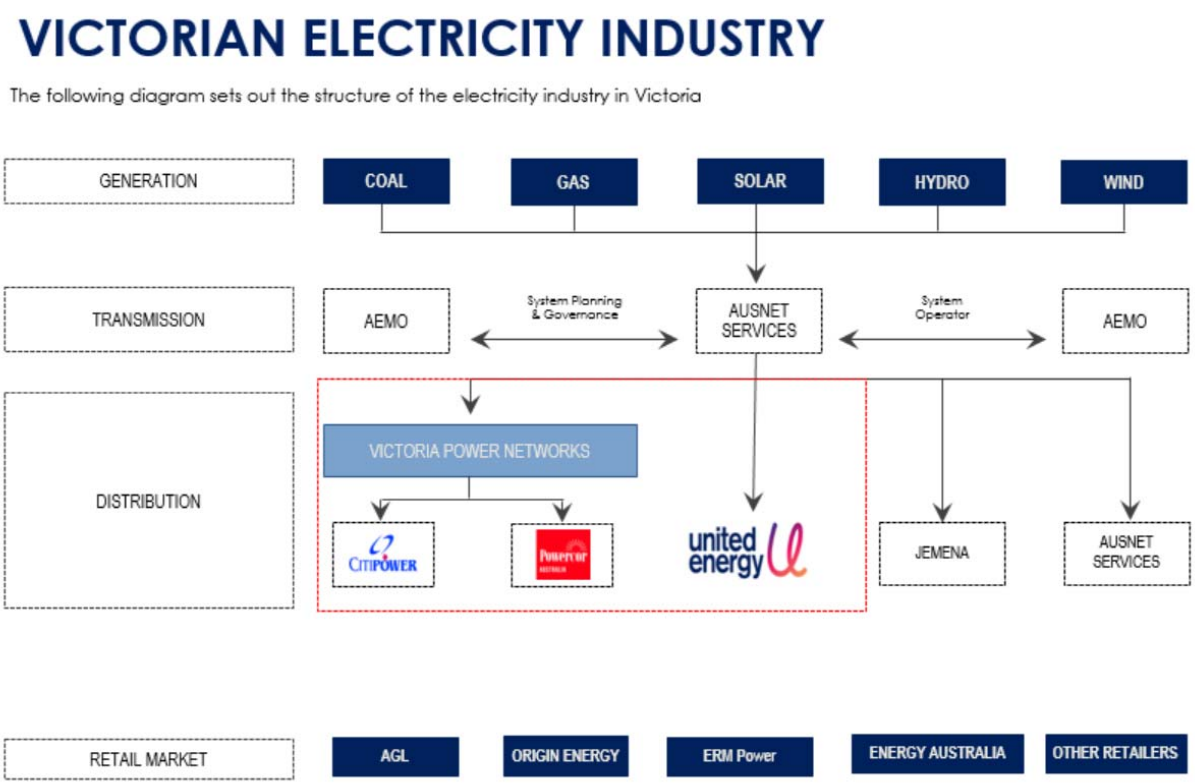
Distribution networks move electricity from the transmission network to residential and business electricity customers. The primary activities of electricity distributors are the operation, construction and maintenance of electricity distribution networks consisting of lines, poles, cables, public lighting, substations and meters.

Retail (customers)

The retail sector of the electricity market sells electricity and manages customer accounts. Retail companies issue customers' electricity bills, a portion of which includes regulated tariffs payable to transmission and distribution companies for transporting electricity along their respective networks.

Victorian electricity industry structure

Electricity industry participants in Victoria



*Note that the diagram above was prepared by VPN.

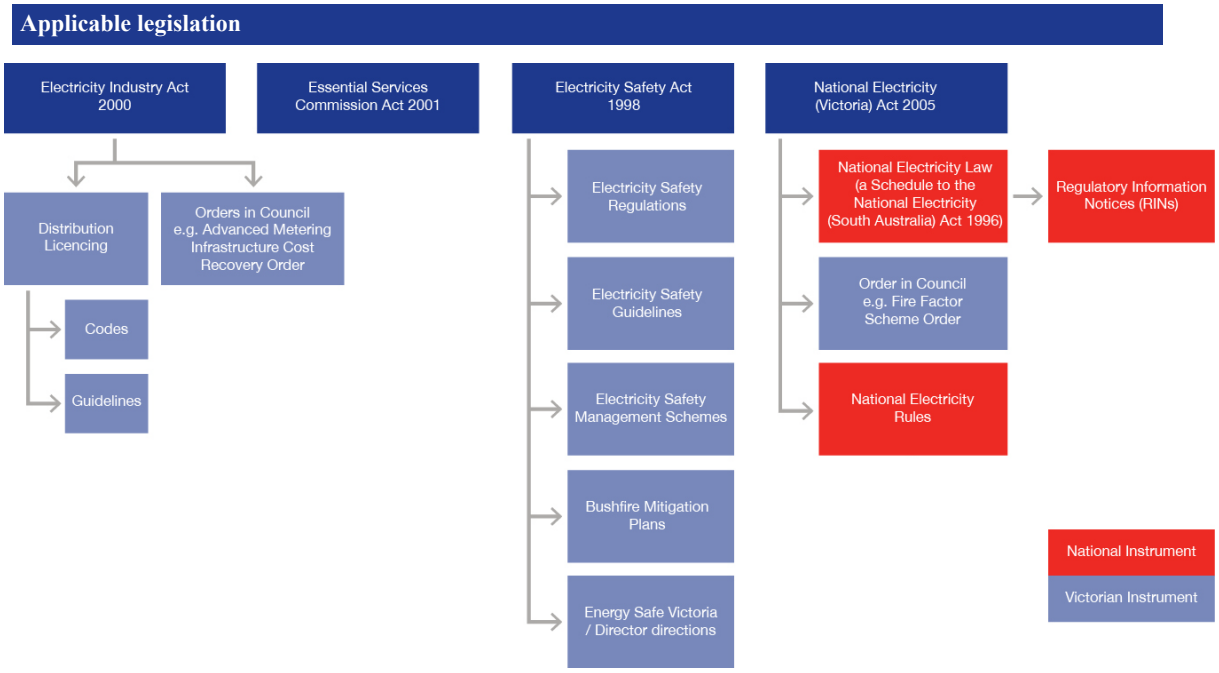
In Victoria, the electricity industry has been privatized. Privatization has occurred by means of the outright sale of electricity assets including CitiPower and Powercor.

Electricity distribution networks have also been privatized in South Australia, and more recently, in New South Wales (e.g. Ausgrid and Endeavour Energy). The ACT distribution network has joint government and private ownership. The incumbent electricity networks in the other major states and territories currently remain Government owned.

Overview of Australian Electricity Regulation

Legislation

The chart below illustrates key legislation, codes and guidelines that apply to Victorian electricity industry participants.

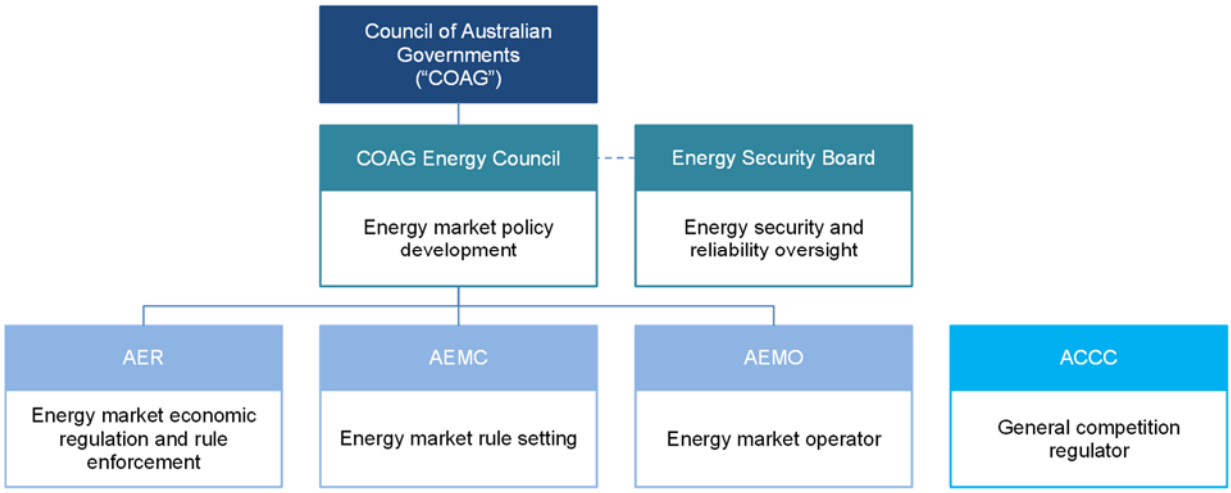


Regulatory bodies

The electricity industry in Australia is regulated through statutory Commonwealth and State regulatory bodies.

The diagram below presents an overview of principal Commonwealth regulatory bodies.

Commonwealth regulatory bodies overview



The key functions of these Commonwealth regulatory bodies are set out below.

Key functions / responsibilities of Commonwealth regulators	
AEMO	■ Conduct the market efficiently in accordance with NER; ■ Improve the efficiency of the market; ■ Undertake responsibility for and co-ordinate the power system according to the Rules; ■ Maintain system security; and ■ Register participants and to consider and regulate the interest of Registered Participants.
AER	■ Setting the amount of revenue network businesses can recover from customers for using networks that transport energy; ■ Assessing and approving annual network pricing proposals and network tariff structures; ■ Monitoring and enforcing compliance with national energy legislation and rules, including ring-fencing and metering obligations; ■ Monitoring wholesale electricity and gas markets to ensure suppliers comply with the legislation and rules, and taking enforcement action where necessary; ■ Regulating retail energy markets in the Australian Capital Territory, South Australia, Tasmania (electricity only), New South Wales and Queensland; ■ Publishing information on energy markets, including the annual State of the Energy Market report; and ■ Assisting the ACCC with energy-related issues arising under the *Competition and Consumer Act 2010 (Cth)*, including enforcement, mergers and authorizations.
AEMC	■ Rule-making functions and powers; and ■ Market development functions (i.e. provide Government with advice on improvements to regulatory and market arrangements).

Key functions / responsibilities of Commonwealth regulators	
ACCC	The ACCC is responsible for general competition and anti-trust regulation, access undertakings and industry access code approvals under the *Competition and Consumer Act 2010*.
ESB	The Energy Security Board ("**ESB**") was established by the COAG Energy Council in August 2017. The ESB's role is to provide whole of system oversight for energy security and reliability. The ESB comprises an independent Chair, independent Deputy Chair and the heads of the AEMC, AER and AEMO.

The principal Victorian state based regulators are:

- Energy Safe Victoria ("**ESV**"), the independent technical regulator responsible for electricity, gas and pipeline safety in Victoria; and
- Essential Services Commission (Victoria) ("**ESC**"), who is responsible for licensing electricity industry participants and making or amending regulatory codes and guidelines.

Overview of the revenue determination process

A key function of the AER is setting the revenue (or prices) that network businesses can recover from customers for using their networks—typically referred to as a revenue determination. The process and legal framework for distribution revenue determinations are governed by Chapter 6 of the NER.

The AER's approach to distribution revenue determinations involves the assessment of required revenue forecasts for a given regulatory control period. In order to determine each distributor's revenue requirement, the AER considers, for example:

- operating and maintenance expenditure;
- capital expenditure;
- asset depreciation costs and taxation liabilities; and
- return on capital.

The AER's approach is commonly referred to as the 'building block' approach (see diagram below).

Building block revenue

Regulated asset base	=	Opening value of assets	-	Depreciation over period	+	Capital expenditure	-	Asset disposals	+	CPI escalation
Revenue cap	=	Regulated asset base	x	Weighted average cost of capital	+	Operating expenditure	+	Regulatory depreciation	+	Efficiency carryover

The distribution tariffs for standard control services are set to allow recovery of the forecast revenue requirement based on the assumed level of demand. As the AER currently applies a revenue cap, volume risk within a regulatory control period is removed (i.e. where actual energy consumption differs from the forecast, tariffs will be adjusted in future years to recover the allowed revenues).

The NER also provides for distributors to recover additional revenue for specified events that are uncertain or are beyond the control of the distributor at the time a regulatory determination is made (e.g. 'contingent projects' and

'pass through events'). This ensures customers only fund such events if they occur, while maintaining that distributors are in a financially neutral position.

Final Decision for the regulatory control period from 2016 – 2020

CitiPower and Powercor's current regulatory period runs for five years from 1 January 2016 to 31 December 2020.

The AER released its final decisions for both CitiPower and Powercor's allowed revenues in the 2016-20 regulatory control period in May 2016.

Key components of the AER's final decision are discussed below (recognizing the cost of debt is updated annually based on a rolling 10-year trailing average).

Regulatory WACC

Regulatory WACC build up	
Components	**CitiPower / Powercor**
Cost of equity	7.0%
Beta	0.70
Risk-free rate	2.48%
Market risk premium	6.50%
Cost of debt	5.51%
Proportion of debt funding	60%
Value of imputation credits	0.4
WACC	**6.11%**

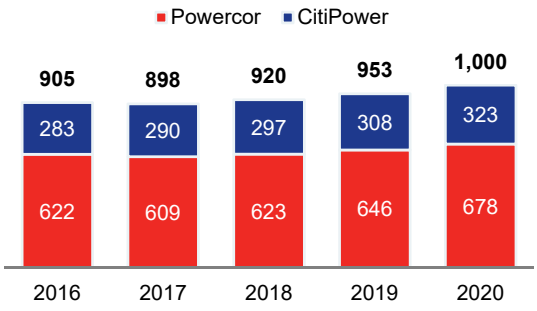
Maximum allowed revenue and regulated asset base

The charts below shows the maximum allowed revenue and closing regulatory asset base as determined by the AER for CitiPower and Powercor. Actual revenues will differ from that shown below due to:

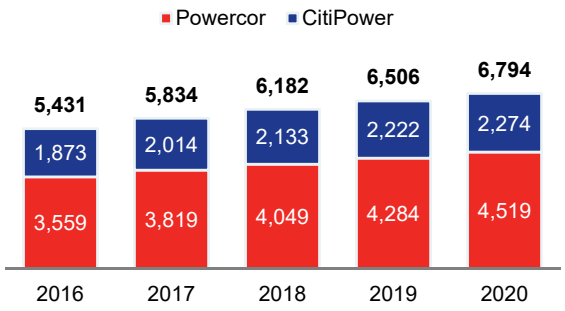
- Timing differences in recovery of distribution revenues;
- Impact of incentive schemes; and
- Unregulated revenue.

Key AER final decisions (A$ millions)*

Annual Expected Revenue (smoothed)



Closing regulated asset base



Source: AER final decision documents
*Note numbers may not add due to rounding

Further, the AER has approved additional revenue allowances for Powercor to install specific bushfire mitigation technology in selected locations mandated by the Victorian Government. These allowances were subject to three separate contingent project applications, with the following incremental revenue allowances approved by the AER:

- A$28.5m (in August 2017)
- A$30.8m (in August 2018)
- A$1.5m (in January 2020).

Transitional period for January 2021 to June 2021

The Victorian Minister for Energy, Environment and Climate Change has written to the AER and the Victorian distribution businesses indicating the government's intention to change the timing of the annual Victorian electricity and gas network price changes. The change would bring Victoria into alignment with the other states to operate on a financial-year, rather than a calendar-year basis. This will mean extending the current regulatory period by 6 months. Whilst the change still requires passage through Victorian parliament to be given effect through legislation, the next regulatory control period is expected to commence on 1 July 2021 and end on 30 June 2026.

The AER is expected to make a decision on the allowed revenue for this transition period in August 2020.

Regulatory proposal for the period from July 2021 to June 2026

On 31 January 2020, CitiPower and Powercor submitted regulatory proposals to the AER for the regulatory control period 1 July 2021 to 30 June 2026. The AER is expected to publish a draft decision in September 2020, and a final decision in April 2021. CitiPower and Powercor will have the opportunity to respond to the AER's draft decision with a revised regulatory proposal, prior to the AER's final determination.

Business Overview

Introduction

The Group's primary business is the construction, operation and maintenance of the electricity distribution network – a natural monopoly and strategic community asset that constitutes a core component of Victoria's infrastructure.

The Issuer, through its subsidiaries, is the owner and operator of two electricity distribution businesses, CitiPower and Powercor:

- CitiPower is the owner and manager of the electricity distribution network servicing customers in Melbourne's central business district ("**CBD**") and throughout the inner suburbs of Melbourne. The CitiPower network covers all major offices of the Government and private sector within the CBD, as well as other landmarks such as the Melbourne Cricket Ground and Federation Square.
- Powercor operates the primary electricity distribution business in the central and western region of the State of Victoria, from the western suburbs of Melbourne to the South Australian and New South Wales border.

Location of CitiPower and Powercor



The Group's revenues are primarily derived from distribution system revenues. For the financial year ending 31 December 2019, regulated and semi-regulated revenues from distribution related activities contributed approximately 80% of total revenue[2]. The Group also derives other distribution and unregulated revenue from other sources, including the provision of public lighting, meter data and connection services as well as the provision of back office and engineering and construction services to external clients. Total revenue[3] for the group was A$1,392 million for the year ended 31 December 2019.

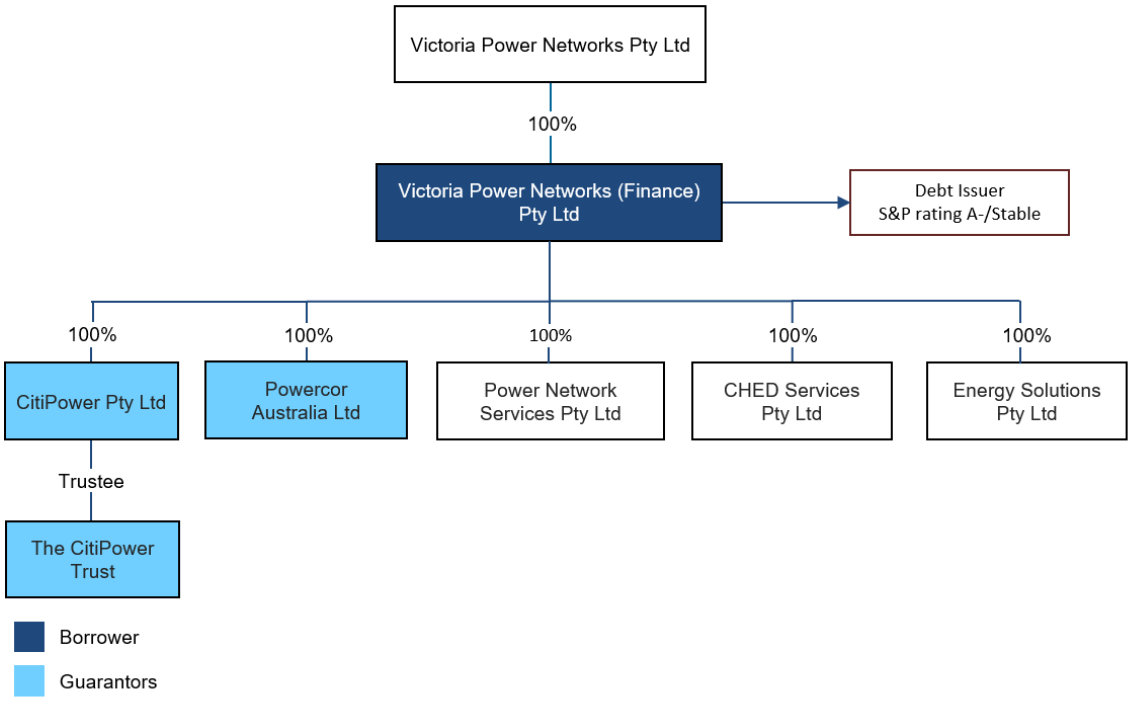
The Issuer currently maintains a strong investment grade credit rating of A-/Stable from S&P.

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[2] Total revenue from continuing operations exclusive of transmission revenue and interest income.

[3] Total revenue from continuing operations exclusive of transmission revenue and interest income.

Simplified corporate structure



History

Historically, the Victorian electricity sector was owned and operated by a combination of the State and Local governments. In 1993, the State Government of Victoria initiated a program that led to the restructuring and disaggregation of the electricity sector in Victoria. As part of this process CitiPower and Powercor were formed in 1994 as two of five electricity distribution businesses in Victoria.

The other distribution businesses that resulted from this disaggregation are currently known as Jemena, United Energy and AusNet Services. Some of the key milestones in VPN's history are highlighted in the table below.

Key milestones	
Date	**Milestone**
October 1994	CitiPower and Powercor created when the State-owned State Electricity Commission of Victoria ("**SECV**") is disaggregated and corporatized
December 1995	Powercor is privatized and purchased by PacifiCorp (an Oregon based Utility)
January 1996	CitiPower is privatized and purchased by Entergy Corporation (a Louisiana based utility)
December 1998	CitiPower is sold by Entergy Corporation to American Electric Power (an Ohio based utility)
December 1999	Scottish Power PLC (UK) merges with PacifiCorp (US)
September 2000	Powercor is purchased by Cheung Kong Infrastructure Holdings Ltd ("**CKI**") and Hongkong Electric Holdings Limited ("**HEH**") (now Power Assets Holdings Ltd ("**PAH**"))
June 2001	Powercor's Retail Business is sold to Origin Energy Ltd leaving Powercor solely as a network distributor of electricity
August 2002	CKI and HEH purchases CitiPower, and its Retail Business is sold to Origin Energy Ltd, leaving CitiPower solely as a network distributor of electricity
December 2005	Spark Infrastructure Group ("**Spark**") acquires 49% of CitiPower and Powercor from CKI and PAH (previously known as HEH), CHEDHA Holdings Pty Limited is the head company of the CitiPower and Powercor groups.
December 2007	Power Network Services ("**PNS**") devolves out of Powercor into a standalone entity, Power Network Services Pty Ltd
December 2012	CHEDHA Holdings Pty Limited changed its name to Victoria Power Networks Pty Ltd
November 2015	VPN established the Issuer as a Common Funding Vehicle for its two wholly-owned electricity distribution networks, Powercor and CitiPower.

Competitive strengths

Natural monopoly position

The Group enjoys a natural monopoly in its main operating areas. The business of electricity distribution is an example of a natural monopoly, where the economic barriers to entry are substantial and largely prohibitive. Along with the substantial investment required, a competitor would also need to consider a range of other factors including the broad coverage of the distribution network, the availability of easements and environmental considerations. The Group's networks service over 1 million households and over 150,000 small and large businesses.

Strong financial and operating performance, stable cash flow generation

The Group has experienced strong financial and operating performance over the last three years, operating the most efficient and reliable urban and rural networks in Australia (refer to Network Condition & Performance section). Geographical adjacency of CitiPower and Powercor facilitates such efficient operations. The stability and certainty of cash flow generation is underpinned by the relatively low working capital requirements, diverse revenue base and historically resilient demand. Moreover, the move to a revenue cap mechanism substantially insulates the Group from volume risk over the five year regulatory period. The regulated price regime ensures a high degree of certainty and stability of EBITDA and cash flows.

Transparent and stable regulatory environment

The regulatory regime in Australia is both transparent and stable, with clear economic objectives and service obligations for the Group. As a provider of an essential service that is not subject to direct competition, the majority of the Group's revenues are subject to review by the independent national regulator, the AER. The revenue determination process is highly transparent and governed by the NER. The NER prescribe in detail how the regulator

should deal with certain key parameters, which ultimately determine distribution network prices payable by electricity consumers. Once set, the Group's revenues benefit from a substantial degree of certainty for the regulatory period.

Strong investment grade ratings with stable outlook

The Issuer maintains a strong investment grade rating of A-/Stable from S&P. This strong investment grade profile is primarily a function of low business risk, driven in part by the Group's natural monopoly position coupled with a highly transparent regulatory environment and stable financial profile.

Support of substantial, high quality owners

VPN, the parent company of the Issuer, is owned 51% by Cheung Kong Infrastructure Holdings Ltd ("**CKI**") and Power Assets Holdings Ltd ("**PAH**") and 49% by Spark Infrastructure Group ("**Spark**"). Both CKI and PAH have strong financial profiles and extensive experience in the energy infrastructure sector. CKI is the largest publicly listed infrastructure company in Hong Kong with a market capitalization of HK$147 billion as at 31 December 2019. PAH is a global power and utility-related business with investments in Hong Kong, the United Kingdom, Australia, New Zealand, Mainland China, the United States, Canada, Thailand, the Netherlands and Portugal and has a market capitalization of HK$122 billion as at 31 December 2019. Spark is a publicly listed investment vehicle for a portfolio of regulated utility infrastructure assets in Australia with market capitalization of approximately A$3.74 billion as at 31 December 2019. Its primary investments include its 49% interest in CitiPower and Powercor, a 49% interest in SA Power Networks and a 15% interest in TransGrid.

Experienced management team

VPN has a seasoned management team, with extensive experience in operating and managing electricity distribution businesses. The Chief Executive Officer, Mr. Timothy Rourke, has been with VPN since April 2013. He is supported by a team of credentialed senior management.

Strategy

VPN has a rolling strategic program of work which reflects and accommodates: the changing regulatory environment, emerging customer needs, new technologies and capabilities, and our focus on continuous improvement. Each initiative within the strategic program of work is directly linked to one of our five strategic pillars, which are as follows:

1. **Optimising regulatory outcomes** – securing the regulation outcomes we need to safely run our business and make the right infrastructure investments.
2. **Driving operational excellence** – improving and strengthening our business for the long term by increasing productivity so we can continue to provide customers with safe, reliable and affordable electricity supply.
3. **Building a network for the future** – leading the way in emerging technologies and changing customer needs to ensure an effective and efficient reinforcement of our network.
4. **Delivering customer outcomes –** delivering powerful customer service, to every customer, every day.
5. **Improving stakeholder engagement** – ensuring delivery of the right energy solutions for our customers by working with and listening to our stakeholders – customers, employees, governments, regulators, retailers and other business partners.



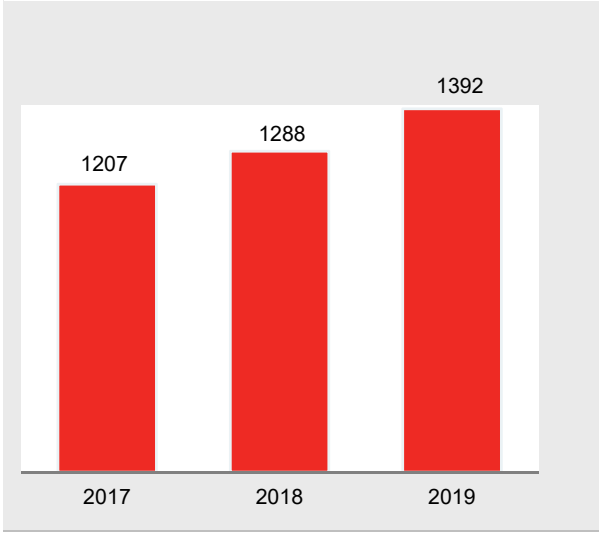
The shared values that underpin VPN's corporate culture are:

- Live safely
- Improve our business
- Be customer and community minded
- Succeed together
- Be the best you can be.

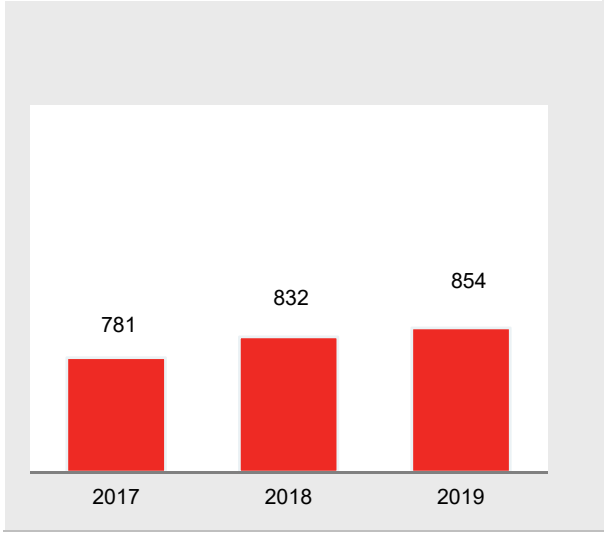
Historical financial performance

The Group's historical revenue and EBITDA (A$ millions)

The Group's total revenue[4]



The Group's EBITDA[5]



Network statistics

The table below provides a summary of the Group's key operating statistics as at 31 December 2019.

Summary statistics		
	CitiPower	**Powercor**
Customer base (number)	343,838	844,882
Regulated asset base[6] (A$ million)[7]	1,961	4,330
Electricity distributed (GWh)	5,813	10,882
Network route line length (kms)	3229	68,546
Proportion of circuit kilometers underground (%)	43.9%	15.2%
Interconnected network supply area (sq. km)	157	145,651

[4] Total revenue from continuing operations exclusive of transmission revenue and interest income.

[5] EBITDA is profit before tax less the impact of the following items taken directly from the audited financial statements for the respective period: "Depreciation and amortisation expenses", "Total finance expenses" and "Interest income (related party and external)".

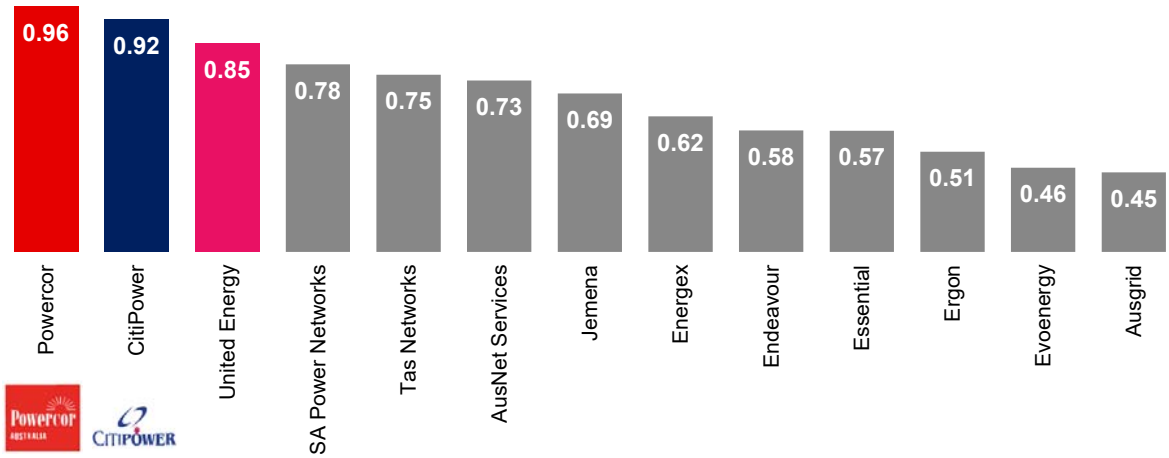
[6] RAB figures include standard control services, metering and public lighting assets

[7] The figures are pre-audited figures for 2019.

Customer density (customer / km)	106.48	12.32
Zone substation transformers (number)	97	144
Distribution transformers (number)	4,925	86,296
Poles (number)	57,942	582,903
Network availability (%)	99.99%	99.96%

The Group has performed well historically relative to its peers based on operating expenditure efficiency, as shown in the chart below.

Operating expenditure efficiency (2006 – 2018 Average)



Source: AER - Annual Benchmarking Report: Electricity distribution network service providers (*November 2019 and prior year annual reports*)

Network Condition and Performance

A five-year cycle of asset inspections is the foundation process by which sub-transmission and distribution assets are inspected, tested and recorded to determine current and future maintenance needs. This provides an efficient and coordinated approach to the maintenance and development of the sub-transmission and distribution networks.

Detailed asset management plans have been developed for all of the Group's asset categories. These consider historical and forecast asset performance as well as operational issues such as specialized skills, knowledge and equipment required to maintain assets and the cost and availability of spare holdings. The risk of failure of specific items is also considered. On the basis of this analysis optimal replacement profiles for each asset category have been developed.

The AER also monitors reliability and quality of supply performance.

Indicators of the quality of electricity distribution services include:

- System average interruption duration index ("**SAIDI**") - measures the sum of the duration of each unplanned sustained customer interruption (in minutes) divided by the total number of distribution customers;
- System average interruption frequency index ("**SAIFI**") - measures the total number of unplanned sustained customer interruptions divided by the total number of distribution customers; and
- Momentary interruption frequency index event ("**MAIFI**") - captures the average number of momentary disruptions on the network.

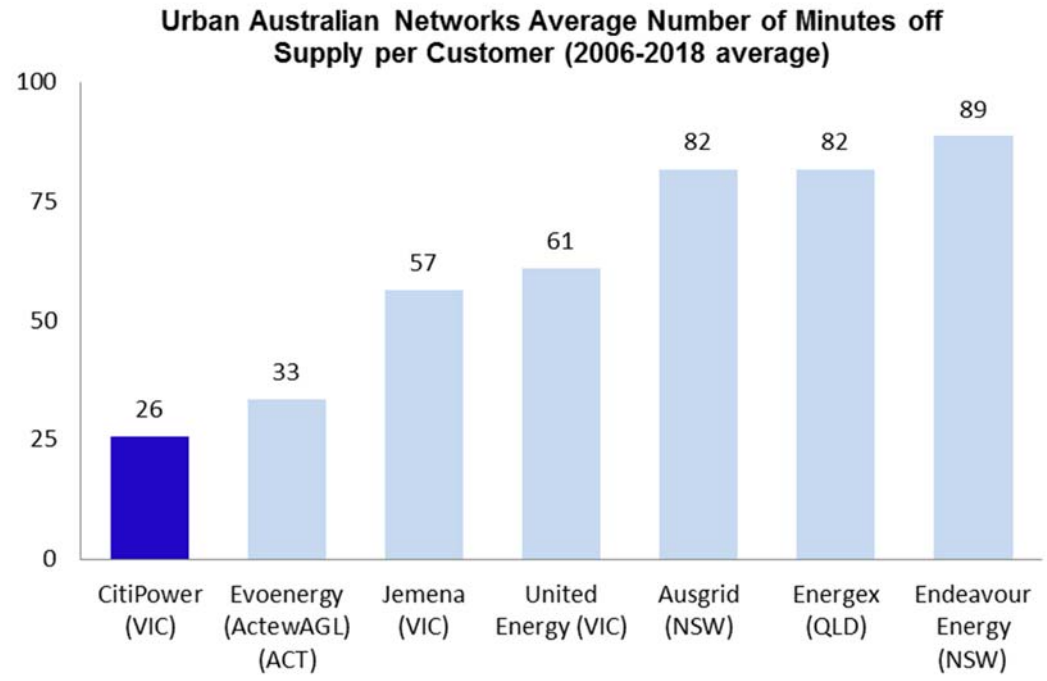
The primary indicator is the amount of time a distributor's customer base spends without power as indicated by the SAIDI. While the variability in total average (planned and unplanned) minutes off supply per customer is primarily

a function of significant weather events, the AER relies on average unplanned minutes off supply per customer and adjusts this figure for excluded events. The AER uses this adjusted measure as an input into its assessment of a network's performance. The service performance targets for each distributor's network differ according to the feeder type: CBD, Urban, Short Rural or Long Rural. They also vary year to year as network reconfigurations follow population shifts.

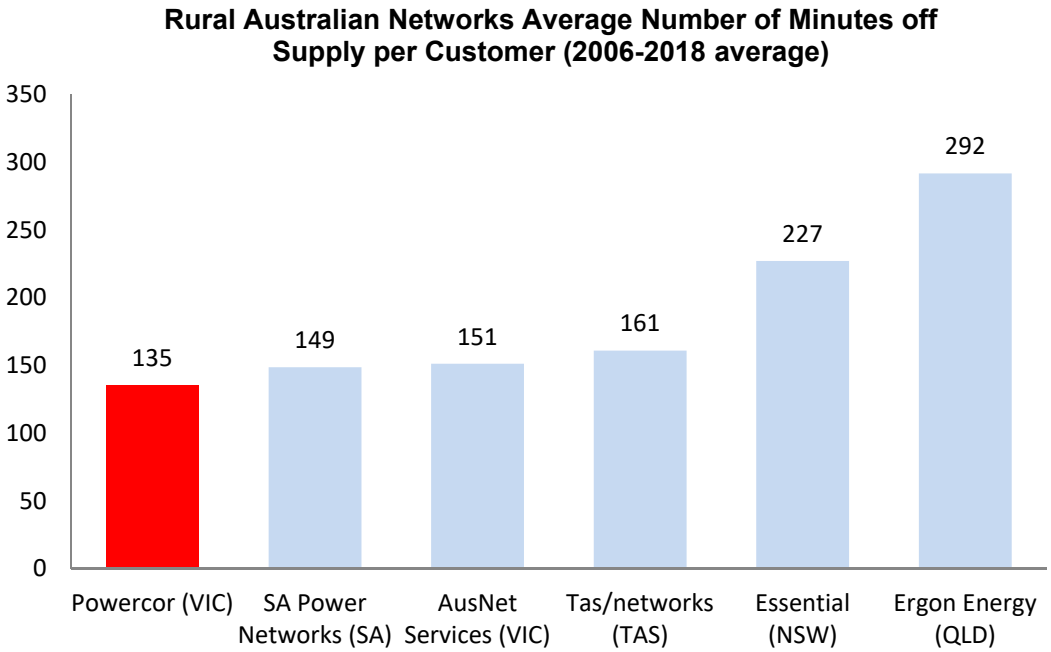
Each electricity distributor is given specific reliability targets and incentive payments or penalties are calculated based on actual performance against these targets. Over the period 2016 to 2019, the Group has received in excess of A$40 million in additional revenue through incentive payments.

The Group has performed well against its peers in terms of network reliability as shown in the charts below:

Network reliability benchmarking – Urban Networks



Network reliability benchmarking – Rural Networks

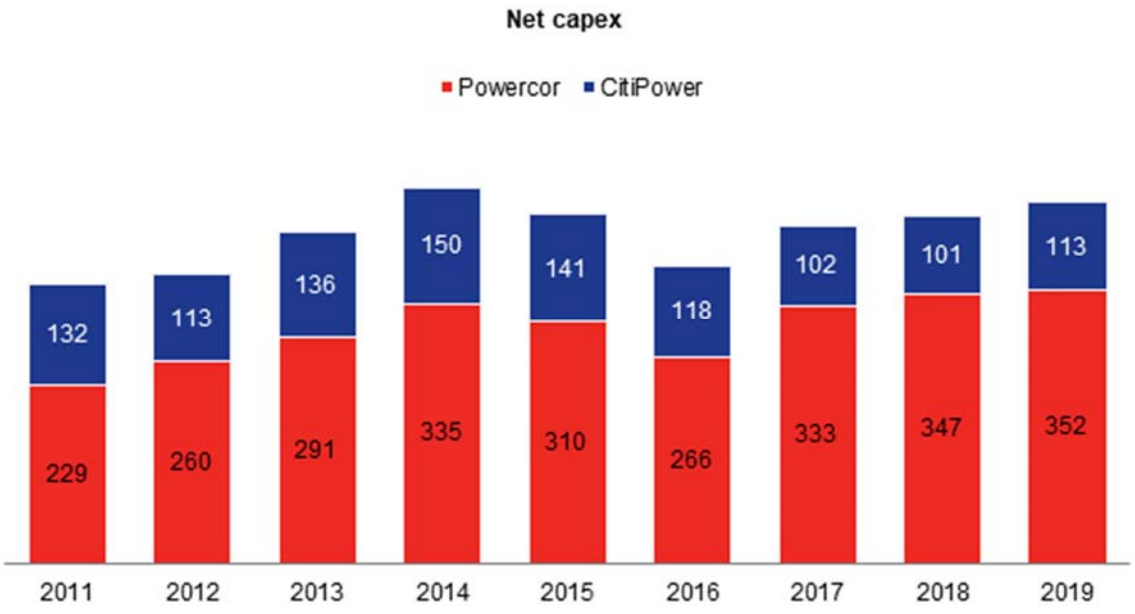


Source: AER - Annual Benchmarking Report: Electricity distribution network service providers (*November 2019 and prior year annual reports*)

Network Capital Expenditure

Network capital expenditure relating to the regulated distribution network has been funded through internally generated cash, customer contributions and additional borrowings. Capital expenditure for 2011-2019 is set out in the table below.

Network capital expenditure[8] (A$ millions)



Unregulated and other business activities

In addition to distribution system revenues, the Group derives distribution and unregulated revenue from other sources, including the provision of public lighting, meter data and connection services as well as the provision of back office and engineering and construction services to external clients. This work is typically completed by PNS or CHED services. PNS is the network construction and maintenance provider to the Group.

All other unregulated revenue is managed by the Group's Beon Energy Solutions team.

Beon has established itself as a reliable and trusted electrical infrastructure contractor and provides services to clients in the renewable, transport, utilities, high voltage maintenance and commercial and industrial segments. The business has grown in parallel with the surge in renewable and infrastructure investment.

Customers

The Group's direct customers are electricity retailers:

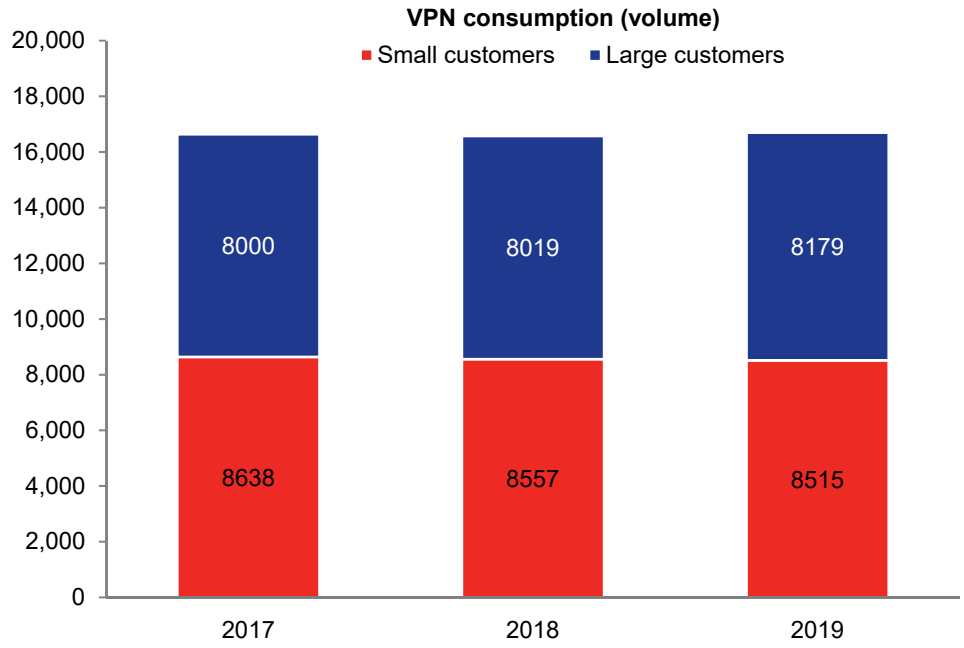
- Origin Energy- rated BBB-/Positive (S&P);
- AGL Energy - rated Baa2/Stable (Moody's);
- Energy Australia - rated BBB+/Stable (S&P); and
- ERM Power.

[8] Net Capex for Standard Control Services

Origin Energy, AGL Energy, Energy Australia and ERM Power represent the "Big 4" energy retailers in Australia and account for over 50% of the group's revenue. No other customers represent a percentage of revenue greater than 10%. The risk of non-payment of electricity bills by electricity users is borne by the electricity retailer.

Approximately 65% of the Group's total distributed use of system ("**DUoS**") revenue is ultimately derived from domestic and small commercial customers. The relatively inelastic demand of the domestic user provides a foundation for the Group's highly stable revenue stream.

Customer consumption (GWh)



A diverse range of industries provides the balance of the Group's distribution revenues. Although demand from industrial and commercial customers is influenced by economic conditions, no single customer represents a significant portion of the Group's total distribution revenues.

Employees

The Group operates a shared services model, reducing duplication of personnel in many back office and support functions. As at 31 December 2019, the Group had 2,019 full-time equivalent employees, which comprise 3% managerial, 88% professionals/trade and 9% clerical.

Approximately 60% of employees operate under award agreements that govern pay and conditions. The remaining employees operate under individual contracts. There are enterprise bargaining agreements ("**EBA's**") in place which expire in 31 August 2020. Negotiations are currently underway for a replacement EBA for roles covered by the ASU, NUW and Professionals Australia. Once an EBA has expired, it remains in place and operational until a replacement has been negotiated. Staff turnover is low and the average term of service is approximately 12.7 years.

Superannuation / Pension

Certain qualifying employees are members of a defined benefit superannuation plan. The Group has a legal obligation to make up any deficit in the plan. The defined benefit superannuation scheme has been closed to new employees since 1994. As at 31 December 2019, the defined benefit superannuation plan had 345 members and a surplus of A$10.4 million.

Liquidity and capital resources

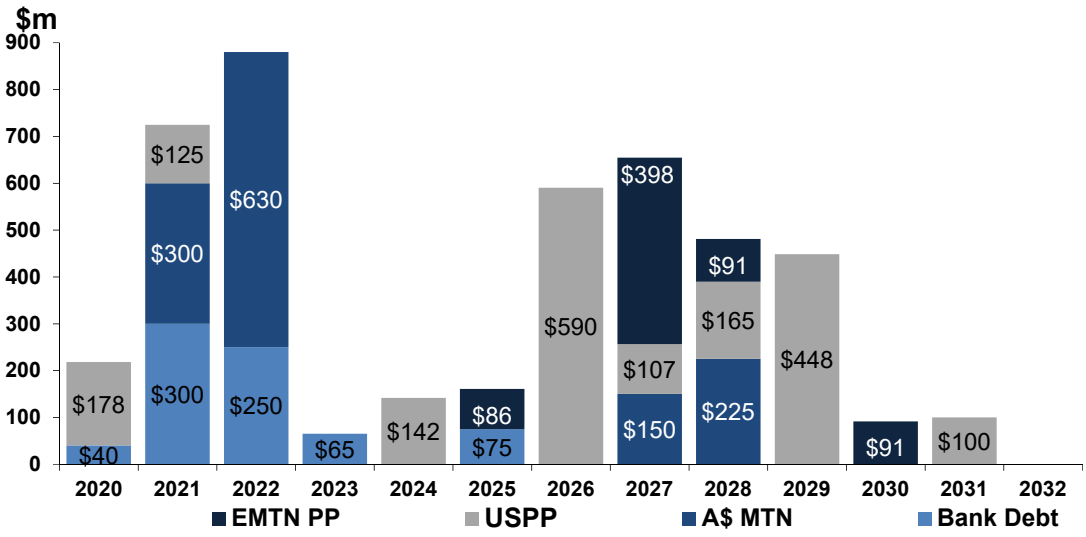
The Issuer's total drawn debt was A$4.57 billion[9] at 31 December 2019, with funding sources including bank debt, US Private Placement ("**USPP**"), Australian dollar medium term notes ("**AUD$ MTN**") and Private Placements issued from the EMTN programme ("**EMTN PP**"). Of this, A$730 million was drawn under bank debt facilities.

As at 31 December 2019, the Issuer had undrawn bank debt facilities of A$445 million[10] and a cash balance of A$62 million.

The Issuer's consolidated summary of capitalization (A$ million)

	As at 31-Dec-19	As at 31-Dec-18	As at 31-Dec-17
Cash and Short Term Deposits	62	58	30
Short Term Debt (includes all bank debt)	994	1,081	1,230
Capitalization			
MTN	930	919	1,079
Total Interest Bearing Senior Debt	4,917	4,707	4,434
Less MTM Cross Currency Swaps	-343	-276	-207
Senior Debt restated (including Cross Currency Swap MTN)	4,574	4,431	4,227
Equity	2,013	2,158	1,961
Total Capitalization	6,587	6,589	6,188

The Issuer's debt maturity profile as at 31 December 2019 (A$ millions)[11]



Note: Calendar year

[9] Outstanding senior debt ($4.57b) inclusive of cross currency swap marked to market value (-$0.3b).

[10] This figure excludes the $3 million overdraft facility.

[11] The debt maturity profile as at 31 December 2019 is displayed inclusive of cross currency swap marked to market value.

Risk management

The Group has a formal Enterprise Risk Management Framework in place that is consistent with the International Standard for Risk Management (ISO 31000:2018). The Enterprise Risk Management Framework has been embedded across the business and includes a Group wide Risk Appetite Statement and six monthly risk profiling which comprises review of business risk exposures and development of top 10 risks list. On a semi-annual basis, the top risks are reported to the Risk Management and Compliance Committee along with a summary of key controls.

The Group's treasury functions are responsible for the management of all material financial risks faced by the businesses. These risks include refinancing risk, market risk (including interest rate and currency risk), credit risk and liquidity risk.

The following discussion relates to specific risk management issues:

Financial Risk Management Objectives

The Group seeks to minimize the effects of these risks by using financial derivative instruments to hedge exposures. The use of financial derivatives is governed by treasury policies and the Group does not enter into or trade financial instruments, including financial derivative instruments, for speculative purposes. Where achievable, hedge accounting is adopted for all derivative transactions.

The corporate treasury function reports quarterly to the Risk Management and Compliance Committee, a Board Committee that monitors risks and policies implemented to mitigate risk exposures.

Interest Rate Risk Management

The Group is exposed to interest rate risk primarily due to borrowing funds that reference variable interest rates. Interest rate risk is actively managed through the use of interest rate swap contracts. Hedging activities are evaluated regularly to ensure that the Group is not exposed to excess risk from interest rate volatility and current policy requires a minimum fixed hedging rate of 90%.

Foreign Currency Risk Management

Foreign exchange risk arises from recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Group undertakes certain transactions denominated in foreign currencies, primarily US Dollars, from which exposure to exchange rate fluctuations arise. The Group enters into the following derivative transactions to manage foreign currency risks: (i) cross currency swaps to eliminate all foreign currency risks associated with foreign currency denominated borrowings; and (ii) foreign currency forward contracts to hedge the exchange rate risk arising from payables and receivables denominated in foreign currencies.

Liquidity Risk Management

The Issuer uses a combination of operating cash flows and committed credit lines with domestic and international banks to cover short term liquidity requirements. The Issuer's Board of Directors has adopted what it believes to be an appropriate liquidity risk management framework to manage the Group's funding and liquidity requirements. VPN actively manages liquidity risk including by: (i) maintaining cash reserves, banking and reserve borrowing facilities; and (ii) continuously monitoring forecast and actual cash flows.

Credit Risk Management

The Issuer generates credit risk exposures primarily from accounts receivable owing from a small number of large energy retailers and exposures to derivative counterparties which fluctuate based on changes in underlying interest rates and exchange rates. Accordingly the Issuer and Guarantors are exposed to counterparty credit risk in the event that energy retailers or derivative counterparties are unable to meet financial obligations to the Guarantors when they become due and payable. The Issuer actively monitors counterparty credit risk and actively assesses credit and tenor limits.

OWNERSHIP STRUCTURE AND MANAGEMENT

Major shareholders

CKI

CKI is one of the world's leading global infrastructure companies, with businesses in the United Kingdom, Continental Europe, Canada, Australia, New Zealand, Hong Kong and Mainland China. Currently its operations include energy infrastructure, transportation infrastructure, water infrastructure, waste management, waste-to-energy, household infrastructure and infrastructure related businesses.

As at 31 December 2019, CKI was the largest publicly listed infrastructure company in Hong Kong with a market capitalization of HK$147 billion. CKI also has an investment grade rating of A/Stable by S&P.

PAH

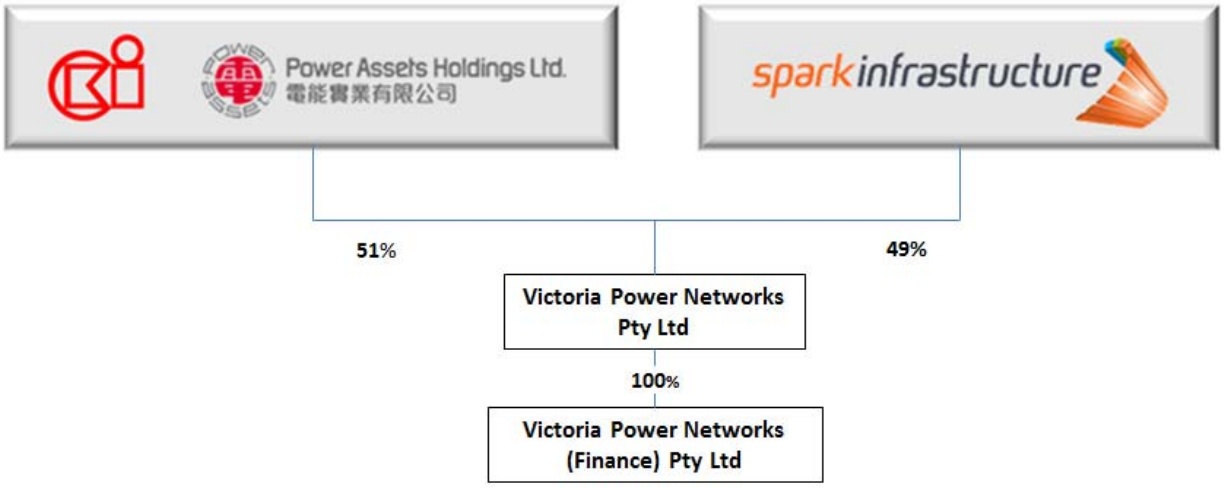
PAH is a global investor in energy and utility related businesses, with interests in the generation of thermal and renewable power, the transmission of electricity, gas and oil as well as the distribution of electricity and gas. From its origins in Hong Kong over a century ago, its operations today span global markets including the United Kingdom, Australia, New Zealand, Mainland China, Thailand, the Netherlands, Portugal, Canada and the United States.

PAH had a market capitalization of HK$122 billion as at 31 December. PAH has an investment grade credit rating of A/Stable by S&P, supported by its solid operating and financial profile underpinned by its globally diversified asset portfolio.

Spark

Spark is a publicly listed investment vehicle for a portfolio of regulated utility infrastructure assets in Australia with a market capitalization of approximately A$3.74 billion as at 31 December 2019. Its portfolio includes a 49% interest in CitiPower and Powercor, 49% interest in the South Australian electricity distribution company SA Power Networks and a 15% interest in the New South Wales transmission network TransGrid.

Simplified Ownership Structure



Board of Directors and Management

The Group's shared services model enables CitiPower and Powercor to reduce the duplication of personnel in many back office and support functions as well as executive management and the Board of Directors.

Board Composition of Victoria Power Networks (Finance) Pty Ltd

Mr. Peter Tulloch, Chairman - Chairman

Mr Tulloch has been Chairman of Victoria Power Networks and its subsidiaries as well as SA Power Networks since 2005. He was appointed Chairman of Australian Gas Networks Limited (formerly Envestra) in late 2014, and he is also a non-executive director of CK Life Sciences Int'l., (Holdings) Inc. Prior to moving to Australia in late 2002, Mr Tulloch worked for more than 30 years in banking in Asia. He was educated in Scotland and is a Fellow of the Institute of Canadian Bankers.

Mr. Hing Lam Kam, Non-Executive Director

Mr Kam is the Group Managing Director of CK Infrastructure Holdings Limited, Deputy Managing Director of CK Hutchinson Holdings Limited and CK Asset Holdings Limited, and President and Chief Executive Officer of CK Life Sciences Int'l (Holdings) Inc. Mr Kam holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration.

Mr. Andrew Hunter, Non-Executive Director

Mr Hunter is the Deputy Managing Director of CK Infrastructure Holdings Limited, and an Executive Director of PAH. Mr Hunter is also a Director of SA Power Networks and a Director of Australian Gas Networks. He is a member of the Institute of Chartered Accountants in Scotland and of the Hong Kong Institute of Certified Public Accountants, and holds a Master of Arts degree and a Master's degree in Business Administration.

Mr. Chi Tin Wan, Non-Executive Director

Mr Wan has worked for the Power Assets Group since 1978 and was Group Managing Director of PAH from January 2013 to January 2014. He is the Chief Executive Officer and an Executive Director of HK Electric Investments Limited, an Executive Director of HK Electric Investments Manager Limited which is the trustee-manager of HK Electric Investments, and the Managing Director of The Hongkong Electric Company, Limited. Mr Wan holds a Bachelor of Science degree in Electrical Engineering and is also a Chartered Engineer. He is an Honorary Fellow of the Energy Institute in the United Kingdom, a Fellow of the Institution of Engineering and Technology, a Fellow of the Hong Kong Institution of Engineers, and the Vice Chairman of the Engineers Registration Board of Hong Kong.
Mr. Christopher Bennett, Non-Executive Director

Mr Bennet has had a long career in Management Consulting and Technology working across Australia and Asia Pacific. He now operates as an independent consultant to major organisations in the areas of technology, strategy and major change projects. He was a Partner with PwC and held a number of senior roles, including the Government Leader Asia Pacific and Technology Leader Asia Pacific. Mr Bennett was the CEO of SAP Australia and New Zealand and Vice President SAP Asia Pacific over the period 2000 to 2003 and has a history in the implementation of SAP and other ERP related software over the last 30 years.

Mr. Richard Francis, Non-Executive Director

Mr Francis commenced as Managing Director and CEO of Spark Infrastructure in 2012. He originally joined Spark Infrastructure in 2009 as the CFO and served in that role for 3.5 years prior to his appointment as Managing Director. He has in excess of 20 years' experience in the Australian energy sector and other industries. Prior to Spark Infrastructure he was employed by the ASX listed gas transmission and energy infrastructure business APA Group, where he was CFO for four years and by Origin Energy Ltd for more than eight years in a number of senior management roles in the corporate and operational areas. Mr Francis is also a Chartered Accountant. Rick has been

a Non-Executive Director of SA Power Networks since 2009. He was appointed as Chairman of NSW Electricity Networks Operations (TransGrid) in December 2015 and has served as Deputy Chair since June 2016.

Dr. Keith Turner, Non-Executive Director

Dr Turner has extensive senior executive experience in the energy sector in New Zealand, working in the public and private sectors, as a private adviser to a range of large corporate clients and Government, and for nine years as Chief Executive of Meridian Energy. He is now a Professional Director and is currently Chair of Fisher and Paykel Appliances (NZ), former Deputy Chair of Auckland International Airport (NZ), and a Director of Spark Infrastructure, Transgrid (NSW) and Chorus (NZ). He has a PhD in electrical engineering and is a Distinguished Fellow of IPENZ.

Mr. Loi Shun Chan, Non-Executive Director

Mr Chan is an Executive Director and Chief Financial Officer of CK Infrastructure Holdings Limited. He is an Executive Director of PAH, HK Electric Investments Limited, HK Electric Investments Manager Limited as the trustee-manager of HK Electric Investments, and a Director of the Hongkong Electric Company Limited. Mr Chan joined Hutchison Whampoa Limited in 1992 and has been with the CK Group since 1994. He is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, and a member of the Institute of Certified Management Accountants (Australia).

Mr. Gregory Couttas, Non-Executive Director

Mr Couttas has significant financial experience, including auditing financial statements, reporting to Audit & Risk Committees, participating in and reporting to Due Diligence Committees for IPOs, debt and equity raisings. He has strong technical expertise coupled with commercial understanding and is pragmatic and collegiate. Mr Couttas is a Non-executive director and Chairman of Audit and Risk Committee of Sydney Water Corporation as well as Virtus Health Limited. He also serves on the Governance Board of the Salvation Army Australia. Mr Couttas was a Partner for 28 years at Deloitte Touche Tohmatsu, Sydney in the Assurance and Advisory practice until he retired at the end of November in 2016.

Mr. Gerard Dover, Non-Executive Director

Mr Dover was appointed Chief Financial Officer of Spark Infrastructure from October 2018. He has extensive experience in business leadership working with public companies/listed boards, stock exchanges and private equity investors, banks and advisers. He is a highly commercial executive with an established track record of success in IPOs, trade sales, equity and debt raisings, M&A, and financial performance improvement. Mr Dover's areas of expertise include power infrastructure and renewable energy, financial and strategic planning, accounting and treasury, valuations, acquisitions and divestments, capital raising and investor relations. Mr Dover is a Chartered Accountant, a Member of the Association of Corporate Treasurers and a Graduate of the Australian Institute of Company Directors.

Mr. Timothy Rourke, Executive Director

Mr Tim Rourke was appointed Chief Executive Officer of the Victoria Power Networks (VPN) group of companies, which includes CitiPower Pty Ltd and Powercor Australia Ltd in April 2013. In May 2017 Tim was also appointed Chief Executive Officer of United Energy. Before joining VPN, Tim was the Asia Pacific Regional Executive for GE Aero Energy based in Singapore. Prior to that, he was the Chief Executive Officer of GE Energy Infrastructure Australia and New Zealand. His previous experience included senior executive roles with AGL, Southern Hydro Pty Ltd and Alliant Energy Australia. Tim also worked for BHP in their minerals division and PwC before entering the energy sector. Mr. Rourke is Chair of Energy Networks Australia, the national industry association representing electricity and gas distribution businesses. Tim has a Bachelor of Commerce (University of Melbourne).

Management

VPN's senior management team is led by the Chief Executive Officer, Timothy Rourke, ably supported by a highly experienced group of experienced leaders. Details for the current senior management team are set out below:

Mr. Timothy Rourke, Chief Executive Officer

Refer to above.

Mr. Garrick Rollason, Chief Financial Officer

Mr. Rollason is the Chief Financial Officer of VPN (including, Victoria Power Networks Finance Pty Ltd, Powercor Australia Ltd and CitiPower Pty) and United Energy Distribution Pty Limited. Prior to joining VPN, Garrick was a Director at Credit Suisse working in the Investment Banking and Capital Markets division for the Asia Pacific region, with a focus on the Australian regulated utilities, infrastructure and transport sectors. Garrick is a qualified Chartered Accountant with the ICAEW and has a Masters of Applied Finance from the University of Melbourne.

Mr. Steven Neave, General Manager Electricity Networks

Steven started his career with VPN in 1989 when it was still known as the State Electricity Commission. He began his career as an electro-mechanical draftsman, engineer, then moving into senior management roles responsible for design and more recently Control and Operations. In December 2015, Steven was appointed General Manager of Electricity Networks, overseeing Asset Management, Strategic Planning & Augmentation, Compliance and day to day Operations activities for VPN. Steven has a Bachelor of Electrical Engineering and a Masters in Entrepreneurship and Innovation.

Mr. Peter Wilkins, Company Secretary and General Manager People and Culture and Legal

Having joined the business in 2012, Peter brings considerable industrial relations experience as well as a broad perspective to people and talent management in the organization, drawing on extensive experience across the Human Resources disciplines in the Supply Chain and Logistics, Fast Moving Consumer Goods, Manufacturing and Automotive industries. Peter also brings strong experience in Health, Safety & Environment leadership. Peter holds a Bachelor of Law (Hons) / Economics and a Masters of Commerce (Human Resources & Industrial Relations).

Mr. Scott Russell, General Manager Strategy, Programs and Change and Acting General Manager Customer Services

Scott joined the business in November 2013 to lead our company wide transformation program which was delivered over 2014 and 2015. His current responsibilities include business improvement, digital innovation (net, customer and workplace), vegetation management, aerial service and change management. Prior to joining us, he was a management consultant with Ernst & Young specializing in business transformation, customer experience and commercial management. He has also undertaken similar roles for Telstra and PwC.

Mr. Peter Bryant, General Manager Network Services

Peter has more than 30 years' experience in the electricity industry. His experience includes network asset management, design and construction, network reliability, customer service management, strategy, issue resolution and relationship and contractor management. Peter has held a number of industry committee roles including Victorian Ministerial Advisory Committee for Advanced Metering Infrastructure Industry, the National Smart Metering Stakeholder Steering Committee, National Electricity Market Information Exchange and Retail Market Executive Committees. Peter is a Leadership Victoria Williamson Fellow.

Ms. Renate Vogt, General Manager Regulation

Renate was appointed as General Manager of Regulation in December 2016. She is the main point of liaison between the business and the AER in respect of the 2021-2025 regulatory reset. She joined VPN in 2008 as a senior

economist and progressed to Head of Regulation in which she successfully contributed to both the 2006-10 and 2011-15 regulatory resets as well as metering reviews during the period.

Mr. Glen Thomson, General Manager BEON Energy Solutions

Joining the company in January 2016, Glen brings a wealth of experience in the energy sector across generation, retail, renewables and energy services. His previous roles include Chief Executive Officer of Simply Energy (a national electricity retailer and energy solutions business owned jointly by GDF SUEZ and Mitsui) as well as senior and executive positions within GDF SUEZ, Fluor Corporation, and a Duke Energy/Fluor Corporation partnership in Australia, the UK, and the USA with portfolios covering strategy, regulation, business development, and construction. His passion for embracing new technologies and opportunities within the industry equip him well to lead the BEON Energy Solutions business.

Ms. Joanne Pafumi, General Manager Corporate Affairs

Joanne was appointed in August 2018 and brings over 30 years' experience in corporate communication, brand strategy and stakeholder engagement. She was previously Vice President, External Affairs and Sustainability for gas development and production company, QGC which followed executive roles in corporate affairs and human resources with global mining house, Xstrata Zinc. Joanne has a Bachelor of Business (Communication) from Queensland University of Technology and qualifications in applied finance and investment from the Securities Institute of Australia.

Mr. Alex Jones, Chief Information Officer

Alex joined the Group in January 2018 and brings 25 years' of experience in Information Technology, mainly in commercial and business-facing roles within corporate IT departments. He has specialised knowledge in Business Intelligence, Customer Relationship Management, Business Process Management, and strategy and organizational design. Alex has an MBA from the Australian Graduate School of Management and a Bachelor of Science (Computer Science) from the University of Melbourne.

FORM OF THE NOTES

1 Initial Issue of Notes

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

Upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or registration of a Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of such Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with or delivered to the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with or delivered to any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system ("**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3 Exchange

3.1 Temporary Global Notes

Each Temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Overview of the Programme – Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

3.2 Permanent Global Notes

Each Permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes:

(i) if the Permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or

(ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Issuing and Paying Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.3 Global Certificates

If the Pricing Supplement state that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) if principal in respect of any Notes is not paid when due; or

(iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(i) or 3.3(ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

3.4 Partial Exchange of Permanent Global Notes

For so long as a Permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such Permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if so provided in, and in accordance with, the Conditions relating to Partly Paid Notes.

3.5 Delivery of Notes

On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes. In this Offering

Circular, "Definitive Notes" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.6 Exchange Date

"Exchange Date" means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a Permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

4 Amendment to Conditions

The Temporary Global Notes, and Permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any Temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7(i) (Non-Business Days).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where "Clearing System Business Day" means Monday to Friday inclusive except 25 December and 1 January.

4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 9).

4.3 Meetings

The holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a Permanent Global Note shall be treated as having one vote in respect of each

integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

4.4 Cancellation

Cancellation of any Note represented by a Permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Permanent Global Note.

4.5 Purchase

Notes represented by a Permanent Global Note may only be purchased by the Issuer, the Guarantors or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

4.6 Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

4.7 Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the Permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation.

4.8 Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

4.9 Notices

So long as any Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate.

5 AMTNs

5.1 Austraclear

On issue of any AMTNs, the Issuer may, as specified in the applicable Pricing Supplement, procure that the AMTNs are entered into the clearance and settlement system (Austraclear System) operated by Austraclear Ltd (ABN 94 002 060 773) ("**Austraclear**"). On entry, Austraclear will become the sole registered Noteholder and legal owner of the AMTNs. Subject to the rules and regulations known as the Austraclear Regulations established by Austraclear (as amended or replaced from time to time) to govern the use of the Austraclear System, together with any directions or instructions, participants of the Austraclear System ("**Accountholders**") may acquire rights against Austraclear in relation to those AMTNs as beneficial owners and Austraclear is required to deal with the AMTNs in accordance with the directions and instructions of the Accountholders. Any potential investors who are not Accountholders would need to hold their interest in the relevant AMTNs through a nominee who is an Accountholder. All payments by the Issuer in respect of AMTNs entered in the Austraclear System will be made directly to an account agreed with Austraclear or as it directs in accordance with the Austraclear Regulations.

5.2 Holding of AMTNs through Euroclear and Clearstream, Luxembourg

On entry in the Austraclear System, interests in the AMTNs may be held through Euroclear or Clearstream, Luxembourg. In these circumstances, entitlements in respect of holdings of interests in the AMTNs in Euroclear would be held in the Austraclear System by HSBC Custody Nominees (Australia) Limited as nominee of Euroclear, while entitlements in respect of holdings of interests in the AMTNs in Clearstream, Luxembourg would be held in the Austraclear System by JP Morgan Nominees Australia Limited as nominee of Clearstream, Luxembourg. The rights of a holder of interests in AMTNs held through Euroclear or Clearstream, Luxembourg are subject to the respective rules and regulations of Euroclear and Clearstream, Luxembourg, the arrangements between Euroclear and Clearstream, Luxembourg and their respective nominees and the Austraclear Regulations.

5.3 Transfers

Any transfer of AMTNs will be subject to the Corporations Act and the other requirements set out in the Terms and Conditions of the AMTNs and, where the Notes are entered in the Austraclear System, the Austraclear Regulations. Secondary market sales of AMTNs settled in the Austraclear System will be settled in accordance with the Austraclear Regulations.

5.4 Relationship of Accountholders with Austraclear

Accountholders who acquire an interest in AMTNs entered in the Austraclear System must look solely to Austraclear for their rights in relation to such Notes and will have no claim directly against the Issuer in respect of such Notes although under the Austraclear Regulations, Austraclear may direct the Issuer to make payments direct to the relevant Accountholders.

Where Austraclear is registered as the Noteholder of any AMTNs that are lodged in the Austraclear System, Austraclear may, where specified in the Austraclear Regulations, transfer the AMTNs to the person in whose Security Record (as defined in the Austraclear Regulations) those AMTNs are recorded and, as a consequence, remove those AMTNs from the Austraclear System.

Potential investors in AMTNs should inform themselves of, and satisfy themselves with, the Austraclear Regulations and (where applicable) the rules of Euroclear and Clearstream, Luxembourg and the arrangements between them and their nominees in the Austraclear System.

6 Electronic Consent and Written Resolution

While any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, then:

(a) approval of a resolution proposed by the Issuer, the Guarantors or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an "**Electronic Consent**" as defined in the Trust Deed) shall, for all purposes take effect as an Extraordinary Resolution, and shall be binding on all Noteholders and holders of Coupons, Talons and Receipts whether or not they participated in such Written Resolution and/or Electronic Consent; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer, the Guarantors and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by (a) accountholders in the clearing system(s) with entitlements to such Global Note or Global Certificate and/or, where (b) the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer, the Guarantors and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the "**relevant clearing system**") and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

7 SGX-ST

For so long as any Notes (except in relation to AMTNs) are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that the Global Note(s) representing such Notes is exchanged for definitive Notes. In addition, in the event that the Global Note(s) is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes (other than AMTNs) in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate(s) representing each Series or the AMTNs (as defined below). Other than in relation to any AMTNs, either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. In the case of any AMTNs, a copy of the Pricing Supplement will be kept with the Australian Register (as defined below) in respect of the Tranche (as defined below) of which this Note forms part. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Pricing Supplement. Other than in relation to any AMTNs, those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes (other than the AMTNs) are constituted by a Trust Deed (as amended or supplemented as at the date of issue of the Notes (the "**Issue Date**"), the "**Trust Deed**") dated 14 June 2016 between Victoria Power Networks (Finance) Pty Ltd (the "**Issuer**"), Powercor Australia Ltd ("**Powercor**") and CitiPower Pty Ltd ("**CitiPower**") in its personal capacity and as trustee for The CitiPower Trust ("**CitiPower Trust**") (each an "**Initial Guarantor**") and The Bank of New York Mellon, London Branch (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below).

The Notes, the Receipts and the Coupons have the benefit of a guarantee given by the Initial Guarantors and the Additional Guarantors (as defined in Condition 3(c), and together with the Initial Guarantors, to the extent they have not been released as guarantors in accordance with the terms of the Trust Deed, the "**Guarantors**") pursuant to and on the terms of the Guarantee (as defined in Condition 3(c)) set out in the Trust Deed.

AMTNs are registered uncertificated (or inscribed) notes which are constituted by a deed poll (as amended or supplemented as at the Issue Date) (the "**Australian Deed Poll**") dated 14 June 2016 made by the Issuer and the Guarantors in favour of the Trustee and the Noteholders in respect of the AMTNs. The original of the Australian Deed Poll is held by the Registrar. The particular provisions of these terms and conditions ("**Conditions**") relating to Certificates, Bearer Notes, Registered Notes (unless otherwise specifically noted or the context requires), Receipts (as referred to below), Coupons (as referred to below) and Talons (as referred to below) do not apply to AMTNs.

These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Registered Notes, Receipts, Coupons and Talons referred to below, and, in respect of the AMTNs, the Australian Deed Poll. An Agency Agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated 14 June 2016 has been entered into in relation to the Notes (other than AMTNs) between the Issuer, the Guarantors, the Trustee, The Bank of New York Mellon, London Branch as initial issuing and paying agent and the other agents named in it. An agency agreement (as amended or supplemented as at the Issue Date, the "**Australian Agency Agreement**") dated 14 June 2016 has been entered into in relation to the AMTNs between the Issuer, the Guarantors, the Trustee and BTA Institutional Services Australia Ltd (the "**Australian Agent**", which expression shall include any successor agent) as initial paying agent and BTA Institutional Services Australia Ltd as registrar (the "**Australian Registrar**", which expression shall include any successor registrar). The Australian Registrar will maintain a register of holders of the AMTNs (the **Australian Register**). The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Issuing and Paying Agent**", the "**Paying Agents**" (which expression shall include the Issuing and Paying Agent), the "**Registrar**", the "**Transfer Agents**" (which expression shall include the Registrar) and the "**Calculation Agent(s)**". References to the Agent, the Paying Agent, the Registrar and the Register shall, in relation to AMTNs, be a reference to the Australian Agent, the Australian Paying Agents, the Australian Registrar and the Australian Register (as the case may be). Copies of the Trust Deed, the Agency

Agreement and the Australian Agency Agreement are available for inspection at all reasonable times during normal business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL, United Kingdom) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders, the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") (the "**Receiptholders**") relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed (and, in the case of the AMTNs, the Australian Deed Poll) and are deemed to have notice of those provisions applicable to them of the Agency Agreement (other than in the case of AMTNs) and the Australian Agency Agreement (in the case of AMTNs).

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects. A reference in these Conditions to a matter being specified hereon shall, in the context of the AMTNs, be construed as a matter specified in the relevant Pricing Supplement.

1 Form, Denomination and Title

The Notes (other than the AMTNs) are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"). Notes may also be issued in registered uncertificated form pursuant to the Australian Deed Poll ("**AMTNs**"). Notes are issued in the Specified Denomination(s) shown in the relevant Pricing Supplement. In these Conditions, a reference to Bearer Notes or Registered Notes does not include AMTNs.

The Notes are a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the relevant Pricing Supplement.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes and AMTNs shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement or the Australian Agency Agreement (as applicable) (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note or an AMTN is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note or an AMTN is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

In the case of AMTNs, the following provisions shall apply and shall prevail over the foregoing provisions of this Condition 1 in the event of any inconsistency.

AMTNs will be debt obligations of the Issuer constituted by the Australian Deed Poll and will take the form of entries in the Register to be established and maintained by the Registrar in New South Wales, or such other place specified in the applicable Pricing Supplement or as otherwise agreed by the Issuer with the Registrar. The Issuer will arrange for the Registrar to maintain the Register so as to show at all times such details of the Noteholders and the AMTNs as are required to be shown on the Register by or for the effective operation of these Conditions or by law or which the Issuer and Registrar determine should be shown in the Register. The Agency Agreement is not applicable to AMTNs.

AMTNs will not be serially numbered. Each entry in the Register constitutes a separate and individual acknowledgement to the Trustee on behalf of, and to, the relevant Noteholder of the indebtedness of the Issuer to the Trustee on behalf of, and to, the relevant Noteholder. The obligations of the Issuer in respect of each AMTN constitute separate and independent obligations which the Noteholder and the Trustee are entitled to enforce in accordance with (and subject to) these Conditions, the Trust Deed and the Australian Deed Poll. No certificate or other evidence of title will be issued by or on behalf of the Issuer to evidence title to an AMTN unless the Issuer determines that certificates should be made available or it is required to do so pursuant to any applicable law or regulation.

No AMTN will be registered in the name of more than four persons. AMTNs registered in the name of more than one person are held by those persons as joint tenants. AMTNs will be registered by name only, without reference to any trusteeship and an entry in the Register in relation to an AMTN constitutes conclusive evidence that the person so entered is the absolute owner of such Note, subject to rectification for fraud or error.

Title to an AMTN and all rights and entitlements arising by virtue of the Australian Deed Poll or the Trust Deed in respect of that AMTN vest absolutely in the registered owner of the AMTN, subject to rectification of the Register for fraud or error, such that no person who has previously been registered as the holder of the AMTN has or is entitled to assert against the Issuer or the Registrar or the registered holder of the AMTN for the time being and from time to time any rights, benefits or entitlements in respect of the AMTN.

2 No Exchange of Notes and Transfers of Registered Notes and AMTNs

(a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes or AMTNs. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes or AMTNs. AMTNs may not be exchanged for Bearer Notes or Registered Notes.

(b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed

by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) **Additional provisions relating to transfer of AMTNs:**

(i) AMTNs may be transferred in whole but not in part. Unless lodged in the Austraclear System, AMTNs will be transferred by duly completed and (if applicable) stamped transfer and acceptance forms in the form specified by, and obtainable from, the Registrar or by any other manner approved by the Issuer and the Registrar. Each transfer and acceptance form must be signed by the transferor and transferee and be accompanied by such evidence (if any) as the Registrar may require to prove the title of the transferor or the transferor's right to transfer the AMTNs and that the form has been properly executed by both the transferor and transferee. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in the schedule to the Australian Agency Agreement).

(ii) AMTNs entered in the Austraclear System will be transferable only in accordance with the Austraclear Regulations. While an AMTN is lodged in the Austraclear System, neither the Issuer nor the Registrar will recognise any such interest other than the interest of Austraclear as the Noteholder.

(iii) Application for the transfer of AMTNs must be made by the lodgement of a transfer and acceptance form with the Registrar.

(iv) The transferor of an AMTN remains the Noteholder of that AMTN until the name of the transferee is entered in the Register in respect of that AMTN.

(v) AMTNs may only be transferred if (i) the aggregate consideration payable by the transferee at the time of transfer is at least A$500,000 (or the equivalent in another currency, in either case, disregarding moneys lent by the transferor or its associates) or the offer or invitation giving rise to the transfer otherwise does not constitute an offer or invitation for which disclosure is required to be made to investors in accordance with Part 6D.2 or Part 7.9 of the *Corporations Act 2001* (Cth) of Australia ("**Corporations Act**"), (ii) the transferee is not a "retail client" as defined in section 761G of the Corporations Act and (iii) the transfer is in compliance with all applicable laws, regulations or directives (including, without limitation, the laws of the jurisdiction in which the transfer takes place).

(vi) A transfer of AMTNs to an unincorporated association is not permitted.

(vii) A person becoming entitled to an AMTN as a consequence of the death or bankruptcy of a Noteholder or of a vesting order or a person administering the estate of a Noteholder may, upon producing such evidence as to that entitlement or status as the Registrar considers sufficient, transfer the AMTN or, if so entitled, become registered as the holder of the AMTN.

(viii) Where the transferor executes a transfer of less than all AMTNs registered in its name, and the specific AMTNs to be transferred are not identified, the Registrar may register the transfer in respect of such of the AMTNs registered in the name of the transferor as the Registrar thinks fit, provided the aggregate principal amount of the AMTNs registered as having been transferred equals the aggregate principal amount of the AMTNs expressed to be transferred in the transfer.

(d) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(e) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or (d) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(e), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(f) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(g) **Closed Periods:** No Noteholder may require the transfer of a Registered Note or AMTN to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(b) for Notes other than AMTNs and as defined in Condition 7(c) for the AMTNs).

3 Guarantee and Status

(a) **Guarantee:** The Guarantors have unconditionally and irrevocably guaranteed, on a joint and several basis, the due payment of all sums expressed to be payable by the Issuer under the Trust Deed or the Australian Deed Poll (as applicable), the Notes, the Receipts and the Coupons. The Guarantors' obligations in that respect are contained in the Trust Deed.

(b) **Status of Notes and Guarantee:** The Notes and the Receipts and Coupons relating to them constitute (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them and of each Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject

to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer and each Guarantor respectively, present and future, other than those preferred by statute or applicable law.

(c) **Joining and Releasing of Guarantors:**

(i) The Issuer shall ensure that, subject to sub-paragraphs (c)(ii) and (c)(iii) below, at all times;

A. the Total Assets of the Guarantors are not less than 90 per cent. of the Total Group Assets; and

B. EBITDA of the Guarantors is not less than 90 per cent. of the Total Group EBITDA.

(ii) The Issuer may from time to time and in accordance with the terms of the Trust Deed, procure any Subsidiary of the Issuer which is not a Guarantor to accede as an Additional Guarantor in order to comply with sub-paragraph (c)(i) above. The Issuer shall ensure that any Subsidiary of the Issuer that is required to become a Guarantor in order to comply with sub-paragraph (c)(i) above, within 30 days after the Issuer becomes aware of the requirement, or such greater time as is reasonably required to comply with the requirements of Part 2E.1 (related party transactions) and/or Part 2J.3 (financial assistance) of the Corporations Act (where applicable) (i) executes and delivers to the Trustee a supplemental deed in or substantially in the form scheduled to the Trust Deed (or in such other form as may be approved by the Trustee) whereby such Subsidiary of the Issuer agrees to be bound as a Guarantor under the Trust Deed (ii) delivers to the Trustee certified copies of the constitutive documents of such Subsidiary and internal authorisations relating to the entry into and performance of its obligations under the Guarantee and (iii) delivers to the Trustee legal opinions in such form as the Trustee may reasonably request, each as more fully set out in the Trust Deed.

(iii) Provided that no Event of Default has occurred and is subsisting, the Issuer may at any time and from time to time deliver to the Trustee a certificate of two Directors of the Issuer (the "**Directors' Certificate**") certifying that (i) a Subsidiary of the Issuer is to be released as a Guarantor (either immediately or at such later time as is specified in such certificate), and (ii) the release of such Guarantor would not cause the Total Assets of the remaining Guarantors to be less than 90 per cent. of the Total Group Assets or the EBITDA of the remaining Guarantors to be less than 90 per cent. of the Total Group EBITDA. Upon receipt by the Trustee of the Directors' Certificate (or at such later time as specified in the certificate), such Guarantor shall immediately be released from such Guarantee. Notice of such release shall be given by the Issuer in accordance with Condition 16 (*Notices*) to the Noteholders (with a copy to the Trustee), the Receiptholders and Couponholders within 14 days. The Issuer shall only deliver the Directors' Certificate if, upon the release of the Guarantor from such Guarantee, the Total Assets of the remaining Guarantors would not be less than 90 per cent. of the Total Group Assets and the EBITDA of the remaining Guarantors would not be less than 90 per cent. of the Total Group EBITDA. The Trustee and the Noteholders shall be deemed to be aware of and be bound by, and take their rights subject to, the provisions of this Condition 3(c) and any such release or permission. All Guarantors shall be deemed to be aware of and be bound by the provisions of this sub-paragraph 3(c)(iii) and any such release or permission. The remaining Guarantors after any release shall continue to be bound by the terms of the Guarantee notwithstanding any release of any other Guarantor.

In these Conditions:

"**Accounting Standards**" means the accounting standards, principles and practices under the Australian equivalent of the IFRS as determined by the Australian Accounting Standards Board;

"**Additional Guarantor**" means a Subsidiary of the Issuer which becomes an Additional Guarantor in accordance with Condition 3(c);

"**Directors**" means the Board of Directors for the time being of the Issuer, and Director means any member of such Board of Directors;

"**EBITDA**" means, in relation to any entity, the operating profit (loss) of that entity before income tax in respect of the period covered by the most recently prepared audited consolidated annual financial statements or unaudited consolidated semi-annual financial statements of the Issuer, in each case prepared in accordance with the Accounting Standards and:

(i) after deducting operating profit attributable to a Subsidiary of the Issuer or a Guarantor which:

(A) is incorporated, organised or established, and which exists at all times, solely for the purpose of holding, directly or indirectly, an ownership interest in either one entity whose sole assets and business are constituted by a specific project (in this definition, a "**Project Entity**") or one asset;

(B) does not engage in any business not directly related to that Project Entity or asset or the financing thereof; and

(C) does not have any assets or indebtedness other than those relating directly to its ownership interest in that Project Entity or asset or the financing thereof,

but does not include any Guarantor;

(ii) before deducting interest and amounts in the nature of interest, or having a similar purpose or effect to interest shown in the relevant financial statements as having been paid or incurred (excluding Project Subsidiaries) for such period;

(iii) before deducting depreciation and amortization expenses shown in the relevant financial statements;

(iv) before taking into account material items of an unusual or non-recurring nature which represent gains or losses;

(v) before taking into account any gains or losses on disposals, revaluations or impairments;

(vi) before taking into account any unrealised gains or losses arising from movement in the fair value of derivative instruments or financial instruments; and

(vii) before taking into account any interest paid in kind (in lieu of cash payment thereof) by Victoria Power Networks Pty Ltd ("**VPN P/L**") to the Issuer or any Subsidiary with respect to any borrowing or other amount owing by VPN P/L to the Issuer or such Subsidiary,

in each case, to the extent added, deducted or taken into account, as applicable, in determining the operating profit (loss) of the relevant entity in respect of the period covered by the most recently prepared financial statements of the Group;

"**Group**" means the Issuer and its Subsidiaries taken as a whole;

"**Guarantee**" means the guarantee referred to in Condition 3(a) and 3(c) and more fully set out in the Trust Deed pursuant to which the Guarantors jointly and severally guarantee to the Trustee and the Noteholders

the due and punctual payment of all sums which may be payable in respect of the Notes and under the Trust Deed;

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

"**Subsidiary**" has the meaning given in the Corporations Act, but as if body corporate includes any entity. It also includes any entity whose profit or loss is required by Accounting Standards to be included in the consolidated annual profit and loss statements of an entity or which would be required if that entity were a corporation;

"**Total Assets**" means, in relation to any entity, the aggregate of all current and non-current assets on a consolidated basis after eliminating all inter-company transactions as reflected in the most recently prepared audited consolidated annual financial statements or unaudited consolidated semi-annual financial statements of the Issuer, in each case prepared in accordance with the Accounting Standards;

"**Total Group Assets**" means the aggregate of all current and non-current assets of each entity comprising the Group on a consolidated basis, after eliminating all inter-company transactions as reflected in the most recently prepared audited consolidated annual financial statements or unaudited consolidated semi-annual financial statements of the Issuer, in each case prepared in accordance with the Accounting Standards; and

"**Total Group EBITDA**" means the EBITDA of the Group on a consolidated basis in respect of the period covered by the most recently prepared audited consolidated annual financial statements or unaudited consolidated semi-annual financial statements of the Issuer, in each case prepared in accordance with the Accounting Standards.

4 Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), neither the Issuer nor any Guarantor will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest (including any "security interest" as defined in the *Personal Property Securities Act 2009* (*Cth*) of Australia), upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Notes and the Coupons:

(i) the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity; or

(ii) such other security as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

In this Condition, "**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

5 Interest and other Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a

percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent. In the case of any AMTNs to which Screen Rate Determination is specified as applicable in the applicable Pricing Supplement, the applicable Pricing Supplement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page, or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear, in each case as at the time specified above.

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or

any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Bank Bill Rate Determination for AMTNs

Where, in relation to an issue of AMTNs, Bank Bill Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will be the relevant Bank Bill Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any).

For the purposes of this sub-paragraph (C) "**Bank Bill Rate**", for an Interest Accrual Period, means the Australian Bank Bill Swap Reference Rate administered by the Australian Financial Markets Association (or any other person which takes over the administration of that rate) for tenor closest to the Interest Accrual Period as displayed on the "BBSW" page of the Thomson Reuters Screen (or any replacement Thomson Reuters page which displays that rate) on the first day of that Interest Accrual Period as determined by the Paying Agent.

However, if the rate is not displayed by 10.30 a.m. on that day, or if it is displayed but the Paying Agent determines that there is an obvious error in that rate, Bank Bill Rate means the rate determined by the Paying Agent in good faith at approximately 10.30 a.m. on that day, having regard, to the extent possible, to the mid rate of the rates otherwise bid and offered for bank accepted bills of that tenor at or around that time.

(D) Linear Interpolation

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Applicable Maturity**" means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(iv) *Rate of Interest for Index Linked Interest Notes*: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified in the applicable Pricing Supplement to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country of such currency.

(h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, the Registrar (in the case of AMTNs) and any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition

10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Determination or Calculation by agent appointed by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee shall be entitled (but not obliged) to, at the expense of the Issuer, failing whom the Guarantor, appoint an agent on its behalf to do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing provisions of this Condition 5, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. The Trustee shall not be liable to make any such calculation itself or to monitor or supervise any such agent, and shall not be liable to the Noteholders, the Issuer, the Guarantors or any other person for any calculation made by any agent appointed by it hereunder.

(k) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Austraclear**" means Austraclear Ltd (ABN 94 002 060 773).

"**Austraclear System**" means the system operated by Austraclear for holding securities and the electronic recording and settling of transactions in those securities between members of that system.

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency (and if the currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively); and/or

(ii) in the case of euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30;

(vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30;

(viii) if "**Actual/Actual-ICMA**" is specified hereon,

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise specified hereon.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified hereon.

ISDA Definitions" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

"**Reference Rate**" means the rate specified as such hereon.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service).

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(l) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) **Redemption by Instalments and Final Redemption:**

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) **Early Redemption:**

(i) *Zero Coupon Notes:*

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f)

or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee were called, the Guarantors) has confirmed to the Trustee by giving the certificate described below immediately before the giving of such notice that:

(i) it has or will become obliged to pay Additional Amounts (as defined in Condition 8) as a result of any change in, or amendment to, the laws or regulations of the Commonwealth of Australia or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantors, as the case may be) would be obliged to pay such Additional Amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer (or the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it an opinion of legal advisers to the effect that the Issuer or, as the case may be, the Guarantors has or will become obliged to pay such Additional Amounts as a result of such change or amendment and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

(d) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

(g) **Purchases:** The Issuer and its Subsidiaries as defined in Condition 3 may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(h) **Cancellation:** All Notes (other than AMTNs) purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). All AMTNs purchased by or on behalf of the Issuer or any of its Subsidiaries may be cancelled, and such cancellation of an AMTN will be taken to have occurred upon redemption of the Note or an entry being made in the Register that the Note has been redeemed or cancelled or transferred to the Issuer. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantors in respect of any such Notes shall be discharged.

7 Payments and Talons

(a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Registered Notes:**

(i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) **Payments in respect of AMTNs**

(i) Payments of principal and interest in respect of AMTNs will be made in Australian dollars to the persons registered in the Register on the relevant Record Date (as defined below) as the holders of such AMTNs or (if so required by the Trustee by notice in writing following the occurrence of an Event of Default or Potential Event of Default (as defined in the Trust Deed) or following receipt by the Trustee of any money which it proposes to pay under clause 2.5 of the Trust Deed) to the Trustee. Payments to holders in respect of each AMTN will be made: (i) if the AMTN is held by Austraclear and entered in the Austraclear System, by crediting on the relevant Interest Payment Date, the Maturity Date or other date on which payment is due the amount then due to the account or accounts to which payments should be made in accordance with the Austraclear Regulations or as otherwise agreed with Austraclear; and (ii) if the AMTN is not held by Austraclear and entered in the Austraclear System, by crediting on the Interest Payment Date, the Maturity Date or other date on which payment is due, the amount then due to an account in Australia previously notified by the Noteholder(s) of the AMTN to the Issuer and the Registrar.

(ii) Payment of an amount due in respect of an AMTN to the holder or otherwise in accordance with this Condition or to the Trustee discharges the obligation of the Issuer to all persons to pay that amount.

(iii) Payments will for all purposes be taken to be made when the Issuer or the Agent gives irrevocable instructions for the making of the relevant payment by electronic transfer, being instructions which would be reasonably expected to result, in the ordinary course of banking business, in the funds transferred reaching the account to which the payment is to be made on the same day as the day on which the instructions are given.

(iv) If, following the application of Condition 7(i) (*Non-Business Days*), a payment is due to be made under an AMTN to an account on a Payment Day on which banks are not open for general banking business in the city in which the account is located, the Noteholder is not entitled to payment of such amount until the next Payment Day on which banks in such city are open for general banking business and is not entitled to any interest or other payment in respect of any such delay.

(v) Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto but without prejudice to the provisions of Condition 8 (*Taxation*).

(vi) In these Conditions in relation to AMTNs, "**Record Date**" means, in the case of payments of principal or interest, close of business on the date which is the eighth calendar day before the due date for the relevant payment of principal or interest.

(d) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(e) **Payments subject to Laws:** All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in

Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8 (*Taxation*) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(f) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed in the Agency Agreement or the Australian Agency Agreement (as the case may be). Subject to the terms of the Trust Deed, the Agency Agreement and the Australian Agency Agreement, the Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer and the Guarantor reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, and (v) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(g) **Unmatured Coupons and Receipts and unexchanged Talons:**

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(h) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(i) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency (and if the currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively); or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

8 Taxation

All payments by or on behalf of the Issuer or the Guarantors in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by the Commonwealth of Australia or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts ("**Additional Amounts**") as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in relation to any payment with respect to any Note, Receipt or Coupon:

(a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to the Taxes in respect of such Note, Receipt or Coupon by reason of his having some connection with the Commonwealth of Australia other than the mere holding of the Note, Receipt or Coupon provided that such a holder shall not be regarded as being connected with the Commonwealth of Australia for the reason that such a holder is a resident of the Commonwealth of Australia within the meaning of the *Income Tax Assessment Act 1936* (Cth) of Australia as amended and replaced (the "**Australian Tax Act**") where, and to the extent that, such tax is payable by reason of Section 128B(2A) of the Australian Tax Act; or

(b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Amounts on presenting it for payment on the thirtieth day or, in the case of an AMTN, a claim for payment being made after, such thirtieth day assuming that day to have been a business day (as defined in Condition 7(i) (*Non-Business Days*);

(c) **Associate**: on account of Taxes which are payable by reason of the holder being an Offshore Associate of the Issuer for the purposes of Section 128F of the Australian Tax Act; or

(d) "**Offshore Associate**" means, in respect of a Note, an Associate (within the meaning in section 128F(9) of the Australian Tax Act) of an entity that is either:

(i) a non-resident of Australia (as defined in section 6 of the Australian Tax Act) and the Note or an interest in the Note was not being, or would not be, acquired by the Associate in carrying on a business in Australia at or through a permanent establishment of the Associate in Australia; or

(j) a resident of Australia (as defined in section 6 of the Australian Tax Act) and the Note or an interest in the Note was being, or would be, acquired by the Associate in carrying on a business in a country outside Australia at or through a permanent establishment of the Associate in that country;

and, in either case, is not acquiring the Note in the capacity of a dealer, manager or underwriter in relation to the replacement of the Note or clearing house, payment agent, custodian, funds manager or responsible entity of a registered scheme within the meaning of the Corporation Act 2001;

(e) **Provision of information**: in respect of a payment to, or to a third party on behalf of, a holder, in circumstances where such withholding or deduction would not have been required if the holder or any person acting on his behalf had provided to the Issuer an appropriate tax file number, business number or details of an exemption from providing those numbers; or

(f) **Tax exemption**: held by or on behalf of a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying, or procuring that any third party complies with any statutory requirements, by complying with or requesting the Issuer to provide information concerning the nationality, residence, identity, tax identification number or address of such holder or by making or procuring that any third party makes a declaration of non-resident or other similar claim for exemption to any Tax authority.

As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of

the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

9 Prescription

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events ("**Events of Default**") occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest as provided in the Trust Deed:

(i) **Non-Payment:** default is made for more than 14 days (in the case of interest) or 7 days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or

(ii) **Breach of Other Obligations:** the Issuer or any Guarantor does not perform or comply with any one or more of its other obligations under the Notes or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer and the Guarantors by the Trustee; or

(iii) **Cross-Default:** (A) any other present or future indebtedness of the Issuer or any Guarantor for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (C) the Issuer or any Guarantor fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (iii) have occurred equals or exceeds A$50,000,000 (or its equivalent in any other currency or currencies); or

(iv) **Enforcement Proceedings:** a government appropriation, distress, attachment or execution or other legal process in an amount of at least A$50,000,000 (or its equivalent in any other currency or currencies) is enforced against any part of the property, assets or revenues of the Issuer or any Guarantor or the CitiPower Trust and is not paid out, discharged or withdrawn within 30 days of the enforcement; or

(v) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Guarantor or the CitiPower Trust in respect of indebtedness in an amount of at least A$50,000,000 (or its equivalent in any other currency or currencies) becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager or other similar person); or

(vi) **Insolvency:** any of the Issuer or any Guarantor is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of the debts of the Issuer or any Guarantor; or

(vii) **Winding-up:** an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer, or any Guarantor, or the Issuer or any Guarantor shall apply or petition for a winding-up or administration order in respect of itself or cease or through an official action of its board of directors threaten to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or (ii) in the case of a Guarantor, whereby the undertaking and assets of the Guarantor are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or

(viii) **Illegality:** it is or will become unlawful for the Issuer or any Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed; or

(ix) **Enforceability**: a material provision of the Notes or the Trust Deed is void, voidable or unenforceable or is claimed to be so by the Issuer or a Guarantor, or the Issuer or a Guarantor claims to be entitled to, terminate, rescind or avoid any material provision of the Notes or the Trust Deed; or

(x) **Guarantee:** the Guarantee is not (or is claimed by a Guarantor not to be) in full force and effect; or

(xi) **Distribution Licence**: any Distribution Licence is terminated, cancelled, suspended, revoked or otherwise ceases to be maintained in full force and effect or is amended, varied, transferred or assigned (in each case, other than (i) in circumstances where a license or similar authorisation or permission on substantially no less favourable terms is granted to the Issuer or a Guarantor or (ii) in circumstances where a regulatory restructure results in a distribution licence of the type previously held by CitiPower or Powercor (as applicable) no longer being required to be held by CitiPower or Powercor (as applicable) in order to carry on the Core Business), in each case, in a way which results in a Material Adverse Effect; or

(xii) **Analogous Events:** any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

For the purposes of this Condition:

"**Core Business**" means the business of electricity distribution and activities reasonably incidental to it in Australia.

"**Distribution Licence**" means any electricity distribution licence or authorisation issued under the Electricity Industry Act 2000 (Vic) or under any replacement act or federal law relating to electricity distribution licencing or authorisations to CitiPower or Powercor as the same may be varied or amended or replaced by another similar licence or authorisation from a relevant Governmental Agency from time to time.

"**Governmental Agency**" means any government (or minister of the government) or any governmental, semi-governmental authority or department and any government agency or authority. It also includes any self regulatory organisation established under statute or stock exchange.

"**Material Adverse Effect**" means something which materially adversely effects (a) the ability of the Issuer or a Guarantor to perform its obligations (including, without limitation, payment obligations) under the Notes, the Trust Deed or the Australian Deed Poll (b) the validity or enforceability of the Notes, the Trust Deed or the Australian Deed Poll.

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) **Meetings of Noteholders:** The Trust Deed and the Australian Deed Poll (in the case of AMTNs) each contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Australian Deed Poll (as applicable). Such a meeting may be convened by Noteholders holding not less than 10 per cent in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, or (viii) to modify or cancel the Guarantee, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 25 per cent, in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed or the Australian Deed Poll (as applicable) provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

(b) **Modification of the Trust Deed:** The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed, the Australian Deed Poll, the Agency Agreement or the Australian Agency Agreement that is of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, and (ii) any other modification (except as mentioned in the Trust Deed or the Australian

Deed Poll), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Australian Deed Poll, the Agency Agreement or the Australian Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, unless the Trustee shall otherwise agree, such modification shall be notified to the Noteholders as soon as practicable.

(c) **Substitution:** The Trustee may agree (but is not obliged to), subject to such amendment of the Trust Deed and the Australian Deed Poll and such other conditions as the Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or its successor in business or of each Guarantor or its successor in business or any Subsidiary of the Guarantor or its successor in business in place of the Issuer or Guarantor, or of any previous substituted company, as principal debtor or Guarantor under the Trust Deed and (in the case of AMTNs) the Australian Deed Poll and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons, the Talons, the Trust Deed and/or the Australian Deed Poll provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or the Guarantors any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

12 Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantors as it may think fit to enforce the terms of the Trust Deed, the Australian Deed Poll, the Notes, the Receipts and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Noteholder, Receiptholder or Couponholder may proceed directly against the Issuer or the Guarantors unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantors and any entity related to the Issuer or the Guarantors without accounting for any profit.

The Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such

report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

14 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent in Luxembourg (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with an outstanding Series. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

16 Notices

Notices to the holders of Registered Notes or AMTNs shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Alternatively, notices to holders of AMTNs may be given by being published in a leading daily newspaper of general circulation in Australia. It is expected that such notices will normally be published in the *Australian Financial Review*. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, or any other clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

17 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law and Jurisdiction

(a) **Governing Law:** The Trust Deed, the Notes (other than the AMTNs), the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. The Australian Deed Poll and the AMTNs are governed by, and shall be construed in accordance with, the laws of Victoria, Australia.

(b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes (other than the AMTNs), Receipts, Coupons or Talons or the Guarantee (as it applies to Notes other than AMTNs) and accordingly any legal action or proceedings arising out of or in connection with any Notes (other than the AMTNs), Receipts, Coupons or Talons or the Guarantee (as it applies to Notes other than AMTNs) ("**Proceedings**") may be brought in such courts. Each of the Issuer and the Guarantors have in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

(c) **Service of Process:** Each of the Issuer and the Guarantors have in the Trust Deed irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

(d) **AMTNs**: The AMTNs, the Australian Deed Poll and (unless otherwise specified in the applicable Pricing Supplement) the Australian Agency Agreement will be governed by, and construed in accordance with, the laws in force in Victoria, Australia, save that the provisions of Condition 10 (*Events of Default*), Condition 11 (*Meetings of Noteholders*) and Condition 12 (*Enforcement*) and definitions used therein shall be interpreted so as to have the same meaning they would have if governed by English law. In the case of AMTNs, the Issuer has irrevocably agreed for the benefit of Noteholders that the courts of Victoria, Australia are to have jurisdiction to settle any disputes which may arise out of or in connection with the AMTNs, the Guarantee (as it applies to AMTNs) the Australian Deed Poll and the Australian Agency Agreement and that accordingly any suit, action or proceedings arising out of or in connection with the AMTNs, the Guarantee (as it applies to AMTNs) the Australian Deed Poll or the Australian Agency Agreement may be brought in such courts.

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

Pricing Supplement dated [●]

Victoria Power Networks (Finance) Pty Ltd
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
Guaranteed by [Powercor Australia Ltd and CitiPower Pty Ltd in its personal capacity and in its capacity as trustee of The CitiPower Trust]
under the €3,000,000,000
Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Offering Circular dated [●] [and the supplement to it dated [●]] (the "**Offering Circular**"). Full information on the Issuer, the Guarantors and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. [Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the Conditions) set forth in the Offering Circular dated [*original date*] [and the supplement dated [●]] which are incorporated by reference in the Offering Circular.] [12]

[MiFID II product governance / Professional investors and ECPs only target market —Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [Consider any negative target market.] Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

PRIIPS REGULATION - PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS —The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"; (ii) a customer within the meaning of Directive(EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA

[12] Only include this language where it is a fungible issue and the original Tranche was issued under an Offering Circular with a different date.

or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPS Regulation.

*[**SINGAPORE SFA PRODUCT CLASSIFICATION -** In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section309A(1) of the SFA), that the Notes are [prescribed capital markets products] / [capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.]*[13]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Pricing Supplement.*]

1	[(i)]	Issuer:	Victoria Power Networks (Finance) Pty Ltd
	[[(ii)	Guarantors:	[Powercor Australia Ltd and CitiPower Pty Ltd in its personal capacity and in its capacity as trustee of The CitiPower Trust]
2	[(i)]	Series Number:	[●]
	[(ii)	Tranche Number:	[●][14]
	[(iii)	Date on which the Notes become fungible:	[Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [*insert description of the Series*] on [*insert date*/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 24 below [which is expected to occur on or about [*insert date*]]].]
3	Specified Currency or Currencies:		[●]
4	Aggregate Nominal Amount		[●]
	[(i)]	Series:	[●]
	[(ii)	Tranche:	[●]]
5	Issue Price:		[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]

[13] For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

[14] If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.

6	(i)	Specified Denominations:	[●][15] [16]
	(ii)	Calculation Amount:[17]	[●]
7	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date	[*Specify*/Issue Date/Not Applicable][18]
8	Maturity Date:		[*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]
9	Interest Basis:		[●] [per cent. Fixed Rate] [[*specify reference rate*] +/– [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*specify*)] (further particulars specified below)
10	Redemption/Payment Basis:		[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*specify*)]

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[15] Section 6: Add the following language if the programme allows for issues of securities with a maturity of less than one year and the issuer is not an authorised person permitted to accept deposits or an exempt person under the UK Financial Services and Markets Act 2000. Delete square-bracketed text for issuers incorporated in the UK or within section 418 FSMA. The issue of securities with a maturity of less than one year by such issuers, where the issue proceeds are to be accepted in the United Kingdom, or, in the case of issuers incorporated in the UK or within section 418 FSMA in any country, will be subject to section 19 FSMA unless their denomination is £100,000 or more (or its equivalent in other currencies) and they are only issued to "professionals" within Article 9(2)(a) of the Financial Services and Markets Act (Regulated Activities) Order 2001:

"Notes [(including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 FSMA and] which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies)."

Add appropriate provisions to terms and conditions if included.

[16] If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording below which follows the Guidance Note published by ICMA in November 2006 (or its replacement from time to time).

"€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No notes in definitive form will be issued with a denomination above [€199,000]."

[17] The applicable Calculation Amount (which is used for the calculation of interest and redemption amounts) will be (i) if there is only one Specified Denomination, the Specified Denomination of the relevant Notes or (ii) if there are several Specified Denominations or the circumstances referred to in Note 6 above apply (e.g. Specified Denominations of €100,000 and multiples of €1,000), the highest common factor of those Specified Denominations (note: there must be a common factor in the case of two or more Specified Denominations). If "Calculation Amount" is to be used in the Pricing Supplement, corresponding references to the Calculation Amount for interest, put and call options and redemption amount calculation purposes should be included in the terms and conditions set out in the base offering circular. Note that a Calculation Amount of less than 1,000 units of the relevant currency may result in practical difficulties for paying agents and/or ICSDs who should be consulted if such an amount is proposed.

[18] An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.

11	Change of Interest or Redemption/Payment Basis:		[*Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis*] [Not Applicable]
12	Put/Call Options:		[Investor Put] [Issuer Call] [(further particulars specified below)]
13	[(i)]	Status of the Notes:	[Senior]
	[(ii)]	Status of the Guarantee:	[Senior]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14	Fixed Rate Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate[(s)] of Interest:	[●] per cent. per annum payable in arrear on each Interest Payment Date
	(ii)	Interest Payment Date(s):	[●] in each year
	(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	(iv)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(v)	Day Count Fraction:	[30/360 / Actual/Actual (ICMA) / specify other]
	(vi)	[Determination Dates:	[●] in each year *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*]
	(vii)	[Ratings Step-up/Step-down:	[Applicable/Not Applicable]
		[Step-up/Step-down Margin:	[●] per cent. per annum]]
	(viii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
15	Floating Rate Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Interest Period(s):	[●] [[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
	(ii)	Specified Interest Payment Dates:	[[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day

		Convention in (iv) below is specified to be Not Applicable]]]
(iii)	Interest Period Date:	[Not Applicable]/ [●][in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]
(iv)	First Interest Payment Date:	[●]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)][Not Applicable]
(vi)	Business Centre(s):	[●]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[●]
(ix)	Screen Rate Determination:	
	– Reference Rate:	[●]
	– Interest Determination Date(s):	[●]
	– Relevant Screen Page:	[●]
	(x)	ISDA Determination:
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	ISDA Definitions	[2000/2006]
(xi)	[Linear Interpolation:	Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
(xii)	Margin(s):	[+/-][●] per cent. per annum
(xiii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiv)	Maximum Rate of Interest:	[●] per cent. per annum
(xv)	Day Count Fraction:	[●]
(xvi)	[Ratings Step-up/Step-down:	[Applicable/Not Applicable]
	[Step-up/Step-down Margin:	[●] per cent. per annum]]
(xvii)	Fall back provisions, rounding provisions, denominator and any	[●]

		other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	
16	Zero Coupon Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Amortisation Yield:	[●] per cent. per annum
	(ii)	[Day Count Fraction in relation to Early Redemption Amounts:	[[30/360][Actual/360][Actual/365]][*specify other*]][19]
	(iii)	Any other formula/basis of determining amount payable:	[●]
17		Index-Linked Interest Note/other variable-linked interest Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Index/Formula/other variable:	[*give or annex details*]
	(ii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[●]
	(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv)	Determination Date(s):	[●]
	(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(vi)	Interest or calculation period(s):	[●]
	(vii)	Specified Interest Payment Dates:	[●]
	(viii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(ix)	Business Centre(s):	[●]
	(x)	Minimum Rate/Amount of Interest:	[●] [per cent.] per annum
	(xi)	Maximum Rate/Amount of Interest:	[●] [per cent.] per annum
	(xii)	Day Count Fraction:	[●]

[19] Consider applicable day count fraction if not U.S. dollar denominated.

18	Dual Currency Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(ii)	Party, if any, responsible for calculating the principal and/or interest due (if not the Agent):	[●]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

19	Call Option		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[●] per Calculation Amount
		(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv)	Notice period[20]	[●] days
20	Put Option		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount/specify other/see Appendix
	(iii)	Notice period:	[●] days

[20] Conditions may set the notice period or state that it is to be specified in the Pricing Supplement. Where the notice period is to be specified in the Pricing Supplement, or the Issuer is using the Pricing Supplement to set notice periods which are different to those provided in the Conditions, issuers are advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the issuer and its fiscal agent or any trustee.

21	[Change of Control Put Option/Put Event		[Applicable (see Appendix)/Not Applicable]]
	[(i)	Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount]
	[(ii)	Put Period:	[●]]
	[(iii)	Put Date:	[●]]
22	Final Redemption Amount of each Note		[●] per Calculation Amount
	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:		
	(i)	Index/Formula/variable:	*[give or annex details]*
	(ii)	Party responsible for calculating the Final Redemption Amount (if not the [Agent]):	[●]
	(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv)	Determination Date(s):	[●]
	(v)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(vi)	Payment Date:	[●]
	(vii)	Minimum Final Redemption Amount:	[●] per Calculation Amount
	(viii)	Maximum Final Redemption Amount:	[●] per Calculation Amount
23	Early Redemption Amount		
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):		[●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24	Form of Notes:	**Bearer Notes:** [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in

		the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice][21] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] **Registered Notes:** [Global Certificate registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg]]
25	Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details. Note that this paragraph relates to the date of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest, to which sub-paragraphs 15(v) and 17(ix) relate*]
26	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[No/Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made.]
27	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*]
28	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
29	Other terms or special conditions:	[Not Applicable/*give details*]

RESPONSIBILITY

The Issuer and the Guarantors accept responsibility for the information contained in this Pricing Supplement. [(*Relevant third party information*) has been extracted from (*specify source*). Each of the Issuer and the Guarantors confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.][22]

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[21] The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denominations of the Notes in paragraph 6 includes language that reflects the circumstances referred to in Note 6 above (for example Specified Denominations of €100,000 and multiples of €1,000).

[22] Consider including if third party information is provided, for example in relation to an index or its components, an underlying security or the issuer of an underlying security.

Signed on behalf of **Victoria Power Networks (Finance) Pty Ltd**:

By: .....

Duly authorised

PART B – OTHER INFORMATION

1 LISTING

[Application has been made by the Issuer (or on its behalf) for the Notes to be listed on Singapore Exchange Securities Trading Limited with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be listed on Singapore Exchange Securities Trading Limited with effect from [●].] [Not Applicable.]

(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)

2 [RATINGS

Ratings: The Notes to be issued have been rated:

[S & P: [●]]

[Moody's: [●]]

[[Fitch: [●]]

[[Other]: [●]]

(*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)]

[*Credit ratings are for distribution only to a person (a) who is not a "retail client" within the meaning of section 761G of the Corporations Act 2001 (Cth) and is also a sophisticated investor, professional investor or other investor in respect of whom disclosure is not required under Parts 6D.2 or 7.9 of the Corporations Act, and (b) who is otherwise permitted to receive credit ratings in accordance with applicable law in any jurisdiction in which the person may be located. Anyone who is not such a person is not entitled to receive the relevant document and anyone who receives the relevant document must not distribute it to any person who is not entitled to receive it.]*

3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer [and the Guarantor] and [its/their] affiliates in the ordinary course of business. (Amend as appropriate if there are other interests)]

4 OPERATIONAL INFORMATION

ISIN: [●]

Common Code: [●]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, S.A. and the relevant identification number(s):	[Not Applicable/*give name(s)* and *number(s)*]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[●]

5 DISTRIBUTION

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated, names of Managers:	[Not Applicable/give names]
(iii)	Stabilisation Manager(s) (if any):	[Not Applicable/give names]
(iv)	If non-syndicated, name of Dealer:	[Not Applicable/give name]
(v)	US Selling Restrictions:	Reg. S Compliance Category [1/2]
	TEFRA C/ TEFRA D/ TEFRA not applicable]	
(vi)	Additional selling restrictions:	[Not Applicable/*give details*]

TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase Notes. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in the Notes. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of the Notes, including the effect of any state or local taxes, under the tax laws of Australia and each country of which they are residents or countries of purchase, holding or disposition of the Notes.

Additionally, in view of the number of different jurisdictions where local laws may apply, this Offering Circular does not discuss the local tax consequences to a potential holder, purchaser or seller arising from the acquisitions, holding or disposition of the Notes. Prospective investors must, therefore, inform themselves as to any tax, exchange control legislation or other laws and regulations in force relating to the subscription, holding or disposition of the Notes at their place of residence and in the countries of which they are citizens or countries of purchase, holding or disposition of the Notes.

Australian Taxation

*The following is a summary of the taxation treatment under the Income Tax Assessment Act 1936 of Australia and where applicable, the Income Tax Assessment Act 1997 of Australia ("**Tax Act**"), at the date of this Offering Circular, of payments of interest (as defined in the Tax Act) on the Notes and certain other matters. It is not exhaustive and, in particular, does not deal with the position of certain classes of holders of the Notes (including, dealers in securities, custodians or other third parties who hold the Notes on behalf of any absolute beneficial holders of the Notes) nor does it deal with the Australian tax treatment of any Index Linked Notes or Dual Currency Notes; should the Issuer issue Notes of such kind, the Australian tax treatment of those Notes will be addressed in the applicable Pricing Supplement.*

The following is general guide and should be treated with appropriate caution. Prospective holders of the Notes should consult their professional advisers on the tax implications of an investment in the Notes for their particular circumstances.

Interest withholding tax

An exemption from Australian interest withholding tax imposed under Division 11A of Part III of the Tax Act ("**IWT**") is available in respect of the Notes under section 128F of the Tax Act if all the following conditions are satisfied:

- the Issuer is a resident of Australia when it issues the Notes;
- the Issuer is a resident of Australia when interest (as defined in section 128A(1AB) of the Tax Act) is paid. Interest is defined to include amounts in the nature of, or in substitution for, interest and certain other amounts;
- the Notes are issued in a manner which satisfies the 'public offer test' as outlined in section 128F of the Tax Act. The 'public offer test' should be satisfied where the Notes (whether in global form or otherwise) are offered for issue:

(a) to 10 or more lenders who are carrying on the business of providing finance, or investing or dealing in securities, in the course of operating in the financial market who are not associates of each other for the purposes of section 128F(9) of the Tax Act; or

(b) to at least 100 investors who have acquired debentures in the past or are likely to be interested in acquiring debentures; or

(c) as a result of being accepted for listing on a stock exchange under an agreement requiring listing; or

(d) publicly in electronic form, or in another form, that was used by financial markets for dealing in debentures or debt interests; or

(e) to a dealer, manager or underwriter who under an agreement offers to sell the Notes within 30 days by one of the preceding methods;

- the Issuer does not know, or have reasonable grounds to suspect, at the time of issue, that the Notes or interests in the Notes were being, or would later be, acquired, directly or indirectly, by an "associate" of the Issuer, except as permitted by section 128F(5) of the Tax Act; and
- at the time of the payment of interest, the Issuer does not know, or have reasonable grounds to suspect, that the payee is an "associate" of the Issuer, except as permitted by section 128F(6) of the Tax Act.

Associates

An "associate" of the Issuer for the purposes of section 128F of the Tax Act refers to entities such as natural persons, companies, trustees and partnerships that by reason of a family or business connection are regarded as associates of a particular entity.

The associate test operates to determine whether an entity is an associate of the Issuer. The associate test also considers whether the potential lenders are themselves associated with each other.

Where the Issuer and lenders are companies, associates of the Issuer/lender will broadly include:

- an entity who (together with its associates) holds a majority voting interest in the Issuer/lender;
- an entity who (together with other entities) sufficiently influences the Issuer/lender;
- an entity who is controlled by the Issuer/lender (and its associates) through a majority voting interest; or
- an entity that is sufficiently influenced by the Issuer/lender (and its associates).

Subsection 318(6) of the Tax Act provides that:

> *'a company is sufficiently influenced by an entity or entities if the company, or its directors, are accustomed or under an obligation (whether formal or informal), or might reasonably be expected, to act in accordance with the directions, instructions or wishes of the entity or entities (whether those directions, instructions or wishes are, or might reasonably be expected to be, communicated directly or through interposed companies, partnerships or trusts)'.*

Where the Issuer/lender is capable of benefiting (whether directly or indirectly) under a trust, associates of the Issuer/lender will include the trustee of such trusts.

Where the Issuer/lender is a person or entity who is an "associate" of another person or company which is an "associate" of the Issuer under any of the foregoing then they will be associates for the purposes of section 128F(9) of the Tax Act.

However, for the purposes of sections 128F(5) and (6) of the Tax Act (see the third and fourth bullet points above), "associate" does not include:

- onshore associates (i.e., Australian resident associates who do not hold the Notes in the course of carrying on business at or through a permanent establishment outside Australia and non-resident associates who hold the Notes in the course of carrying on business at or through a permanent establishment in Australia); or
- offshore associates (i.e., Australian resident associates who hold the Notes in the course of carrying on business at or through a permanent establishment outside Australia and non-resident associates who do not hold the Notes in the course of carrying on business through a permanent establishment in Australia), who are acting in the capacity of:

(a) in the case of section 128F(5), a dealer, manager or underwriter in relation to the placement of the Notes, a clearing house, custodian, funds manager or responsible entity of a registered scheme; or

(b) in the case of section 128F(6), a clearing house, paying agent, custodian, funds manager or responsible entity of a registered scheme.

Compliance with section 128F of the Tax Act

The Issuer intends to issue the Notes in a manner that satisfies the requirements of the exemption from IWT as outlined above.

Pursuant to the Dealer Agreement entered into between the Dealers and the Issuer, the relevant Dealer must not, as part of the primary distribution of any Tranche of Notes, sell any relevant Notes to any person that the employees of such Dealer directly involved in the sale of the Notes actually know or have reasonable grounds to suspect, or that the Issuer has notified the Dealer, is an Offshore Associate of the Issuer.

An "Offshore Associate" means an associate (as defined in section 128F(9) of the Tax Act) of the Issuer that is either a non-resident of the Commonwealth of Australia that does not acquire the Notes in carrying on a business at or through a permanent establishment in Australia or alternatively, a resident of Australia that acquires the Notes in carrying on business at or through a permanent establishment outside of Australia (other than, in either case, such an associate acting in the capacity of a dealer, manager or underwriter in relation to the placement of the Notes or in the capacity of a clearing house, paying agent custodian, funds manager or responsible entity of a registered scheme within the meaning of the Corporations Act).

If any employee of a relevant Dealer effecting the sale, or otherwise directly involved in the sale of the Notes, does not know, or does not have reasonable grounds to suspect, that a person is an Offshore Associate, then the relevant Dealer is not obliged to make positive inquiries of that person, to confirm that person is not such an Offshore Associate.

On that basis, no deduction or withholding in respect of Australian IWT should be required to be made from any payment of principal or interest made by the Issuer in respect of the Notes.

Double tax treaties

An exemption from Australian IWT may also be available for holders of the Notes that are resident in a country with which Australia has signed a double tax treaty that exempts the payment of interest from the Australian IWT to that holder.

Some recent double tax treaties exempt interest from IWT where that interest is derived by:

(a) the governments of the relevant countries and certain governmental authorities and agencies in a those countries; and

(b) a "financial institution" resident in a the relevant country which is unrelated to and dealing wholly independently with the relevant Issuer. The term "financial institution" refers to either a bank or any other enterprise which substantially derives its profits by carrying on a business of raising and providing finance. However, interest paid under a back-to-back loan or an economically equivalent arrangement will not qualify for this exemption.

Most relevantly Australia's double tax agreement with the United Kingdom, the United States of America, Japan, France, Norway, South Africa, Finland, New Zealand, Switzerland and Germany provide for these exemptions.

The Australian Federal Treasury maintains a listing of Australia's double tax treaties which provides details of country, status, withholding tax rate limits and Australian domestic implementation. This listing is available to the public at the Federal Treasury's Department website at:

https://treasury.gov.au/tax-treaties/income-tax-treaties/

Other tax matters

Under Australian laws as presently in effect:

- *income tax* — offshore holders of the Notes — assuming the requirements of section 128F of the Tax Act are satisfied with respect to the Notes, payments of principal and interest (as defined in section 128A(1AB) of the Tax Act) to a Noteholder, who is a non-resident of Australia and who, during the taxable year, does not hold the Notes in the course of carrying on business at or through a permanent establishment in Australia, will not be subject to Australian income taxes; and

- *gains on disposal of Notes* — offshore holders of the Notes — a Noteholder, who is a non-resident of Australia and who, during the taxable year, does not hold the Notes in the course of carrying on business at or through a permanent establishment in Australia, will not be subject to Australian income tax on gains realised during that year on sale or redemption of the Notes, provided such gains do not have an Australian source. A gain arising on the sale of the Notes by a non-resident of Australia to another non-resident of Australia where Notes are sold outside Australia and all negotiations are conducted, and documentation executed, outside Australia would not generally be regarded as having an Australian source. The Notes will not constitute taxable Australian property where, broadly, they are not business assets of a permanent establishment in Australia; and

- *deemed interest* — there are specific rules that can apply to treat a portion of the purchase price of Notes as interest for withholding tax purposes when certain Notes originally issued at a discount or with a maturity premium or which do not pay interest at least annually are sold to an Australian resident (who does not acquire them in the course of carrying on business at or through a permanent establishment outside Australia) or a non-resident who acquires them in the course of carrying on business at or through a permanent establishment in Australia. These rules do not apply in circumstances where the deemed interest would have been exempt under section 128F of the Tax Act if the Notes had been held to maturity by a non-resident; and

- *death duties* — no Notes will be subject to death, estate or succession duties imposed by Australia, or by any political subdivision or authority therein having power to tax, if held at the time of death; and

- *stamp duty and other taxes* — no ad valorem stamp, issue, registration or similar taxes are payable in Australia on the issue or transfer of any Notes subject to the Note issued being 'debt interests' as described below; and

- *other withholding taxes on payments in respect of Notes* — section 12-140 of schedule 1 to the Taxation Administration Act 1953 of Australia (the "**Taxation Administration Act**") imposes a type of withholding tax at the rate of (currently) 47% on the payment of interest on certain registered securities unless the relevant payee has quoted an Australian tax file number ("**TFN**"), (in certain circumstances) an Australian Business Number ("**ABN**") or proof of some other exception (as appropriate). Assuming the requirements of section 128F of the Tax Act are satisfied with respect to the Notes, then the requirements of section 12-140 do not apply to payments to a Noteholder in registered form who is not a resident of Australia and not holding those Notes in the course of carrying on business at or through a permanent establishment in Australia. Payments to other classes of holders of the Notes in registered form may be subject to a withholding where the Noteholder does not quote a TFN, ABN or provide proof of an appropriate exemption (as appropriate); and

- *supply withholding tax* — payments in respect of the Notes can be made free and clear of the "supply withholding tax" imposed under section 12-190 of schedule 1 to the Taxation Administration Act; and

- *goods and services tax (GST)*—neither the issue nor receipt of the Notes will give rise to a liability for GST in Australia on the basis that the supply of the Notes will comprise either an input taxed financial supply or (in the case of an offshore subscriber) a GST-free supply. Furthermore, neither the payment of principal or interest by the Issuer, nor the disposal of Notes, would give rise to any GST liability in Australia; and

- *debt/equity rules* — Division 974 of the Tax Act contains tests for characterising debt (for all entities) and equity (for companies) for Australian tax purposes, including for the purposes of dividend withholding tax and IWT. The Issuer intends to issue Notes which are to be characterised as "debt interests" for the purposes of the tests contained in Division 974 and the returns paid on the Notes are to be "interest" for the purpose of section 128F of the Tax Act. Accordingly, Division 974 is unlikely to affect the Australian tax treatment of holders of the Notes; and

- *additional withholdings from certain payments to non-residents* — section 12-315 of schedule 1 of the Taxation Administration Act gives the Governor-General power to make regulations requiring withholding from certain payments to non-residents. However, section 12-315 expressly provides that the regulations will not apply to interest and other payments which are already subject to the current interest withholding tax rules or specifically exempt from those rules. Further, regulations may only be made if the responsible minister is satisfied the specified payments are of a kind that could reasonably relate to assessable income of foreign residents. The regulations promulgated prior to the date of this Offering Circular are not relevant to any payments in respect of the Notes. Any further regulations should also not apply to repayments of principal under the Notes, as in the absence of any issue discount, such amounts will generally not be reasonably related to assessable income. The possible application of any future regulations to the proceeds of any sale of the Notes will need to be monitored;

- *garnishee directions by the Commissioner of Taxation* – the Commissioner of Taxation may give a direction requiring the Issuer to deduct from any payment to a holder of the Notes any amount in respect of Australian tax payable by holders of the Notes. If the Issuer is served with such a direction, then the Issuer will comply with that direction and will make any deduction required by that direction and is not required to pay any additional amount to the holder on account of the amount withheld and paid to the Commissioner of Taxation;

- *taxation of foreign exchange gains and losses* — Divisions 775 and 960 of the Tax Act contain rules to deal with the taxation consequences of foreign exchange transactions. The rules are complex and may apply to any holders of the Notes who are Australian residents or non-residents that hold the Notes in the course of carrying on business in Australia. Any such Noteholder should consult their professional

advisors for advice as to how to tax account for any foreign exchange gains or losses arising from their holding of the Notes; and

- *taxation of financial arrangements* — Division 230 of the Australian Tax Act imposes a regime for the taxation of financial arrangements issued, or held, by Australian residents (or non-residents operating through an Australian permanent establishment) ("**the TOFA regime**"). The TOFA regime as enacted does not contain any measures that would override the exemption from Australian IWT available under section 128F of the Tax Act.

Payments under the Guarantee

The Australian Taxation Office has expressed a view that payments by a guarantor in respect of a debt instrument may be exempt from Australian IWT under section 128F of the Tax Act if those payments would have been exempt had they been made by the issuer of the debt instrument. The basis for this view is that the amounts paid by the guarantor are said to be "in the nature of interest" and therefore interest for the purposes of the Tax Act. The opposing view is that the payments that may be required to be made by the Guarantors would not be interest and therefore would not be subject to Australian IWT in any event. If Australian withholding tax is payable in respect of payments of interest made by the Guarantors to non-resident holders, the Guarantors must pay additional amounts in accordance with the procedure set out below.

Interest on bearer securities

Pursuant to section 126 of the Tax Act, payments of interest in respect of Notes may be subject to Australian withholding tax at a rate of 45% if the Notes are in bearer form and the Issuer does not provide the names and addresses of the holders of the Notes to the Commissioner of Taxation. No such withholding is required if the Notes are held by non-resident holders (that do not hold the Notes in the course of carrying on a business at or through a permanent establishment in Australia) where the exemption provided by section 128F of the Tax Act is available or if Australian IWT is payable. However, section 126 of the Tax Act will apply to resident holders and non-residents who hold the Notes in the course of carrying on a business at or through a permanent establishment in Australia. The Issuer intends to treat operators of clearing systems as the holders of the Notes for these purposes.

Payment of additional amounts

If an amount of Australian withholding tax is required to be deducted or withheld by the Issuer (or a Guarantor) from payments of interest in relation to the Notes, then the Issuer or Guarantors (as the case may be) must, subject to certain exceptions set out in Condition 9 (*Taxation*) of the Notes, pay an additional amount that would result in the holders of the Notes receiving an amount equal to that which they would have received had no such deduction or withholding been made. In such circumstances and subject to the Terms and Conditions, the Issuer will have the option to redeem the Notes.

Australian Resident holders

The income received by Australian resident holders and non-residents who hold the Notes in the course of carrying on a business at or through a permanent establishment in Australia in respect of the Notes will be included in the assessable income of those holders for Australian income tax purposes. Australian resident holders and non-residents who hold the Notes in the course of carrying on a business at or through a permanent establishment in Australia that derive a gain on a sale or redemption of Notes may be subject to Australian tax on such gain.

United States — FATCA Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru**

payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional notes (as described under "Terms and Conditions – Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

The Dealers have, in a dealer agreement dated 14 June 2016 (as amended and/or supplemented and/or restated from time to time, the "**Dealer Agreement**"), agreed with the Issuer and the Guarantors a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Dealer Agreement, the Issuer and the Guarantors have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any further update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Issuer and the Guarantors may also from time to time agree with the relevant Dealer(s) that the Issuer (failing whom the Guarantors) may pay certain third party commissions (including, without limitation, rebates to private banks as specified in the applicable Pricing Supplement).

If a jurisdiction requires that the offering be made by a licensed broker dealer and any of the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

In order to facilitate the offering of any Tranche of the Notes, a nominated Dealer participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect, which support the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level higher than that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof.

No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Under U.K. laws and regulations, any stabilisation action or overallotment may begin on or after the date on which adequate disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end after a limited period. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

The Dealers and certain of their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, in the ordinary course of their business activities, the Dealers or their respective affiliates may make or hold (on their own account, on behalf of their clients or in their capacity as investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the account of their customers, and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to

such Notes and/or other securities of the Issuer, the Guarantors or their respective subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions, investments and securities activities may involve securities and instruments of the Issuer, the Guarantors or of their subsidiaries, including Notes under the Programme, may be entered into at the same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes. As a result of such transactions, a Dealer or its affiliates may hold long or short positions relating to the Notes.

Each of the Dealers and its affiliates may also engage in investment or commercial banking and other dealings in the ordinary course of business with the Issuer, the Guarantors or their respective affiliates from time to time and may receive fees and commissions for these transactions. In addition to the transactions noted above, each Dealer and its affiliates may engage in other transactions with, and perform services for, the Issuer, the Guarantors or their affiliates in the ordinary course of their business. While each Dealer and its affiliates have policies and procedures to deal with conflicts of interests, any such transactions may cause a Dealer or its affiliates or its clients or counterparties to have economic interests and incentives which may conflict with those of an investor in the Notes. Each Dealer may receive returns on such transactions and has no obligation to take, refrain from taking or cease taking any action with respect to any such transactions based on the potential effect on a prospective investor in the Notes.

United States of America

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has offered and sold and, in the case of Bearer Notes, delivered, and shall offer and sell and, in the case of Bearer Notes, delivered, any Series (1) as part of their distribution at any time and (2) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Issuer, the Guarantors and each Relevant Dealer, by the Trustee or, the Lead Manager, only in accordance with Rule 903 of Regulation S under the Securities Act and not within the United States or to, or for the account or benefit of U.S. persons. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and shall comply with the offering restrictions requirement of Regulation S. Each Dealer agrees to notify the Trustee and the Issuing and Paying Agent or, in the case of a Syndicated Issue, the Lead Manager when it has completed the distribution of its portion of the Notes of any identifiable tranche so that the Trustee and the Issuing and Paying Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Notes of that tranche and notify the other Relevant Dealers of the end of the distribution compliance period. Each Dealer agrees that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the United States Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of,

U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of Notes of which such Notes are a part, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S under the Securities Act."

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not entered and agrees that it will not enter into any contractual arrangement with any distributor (as such term is defined in Regulation S) with respect to the distribution or delivery of the Notes, except with its affiliates or with the prior written consent of the Issuer and the Guarantors.

Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes and the Guarantee are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes and Guarantee, an offer or sale of Notes and Guarantee within the United States by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA and UK Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

  (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"); and

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or as agent) for

the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer and the Guarantors; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the "**Corporations Act**")) in relation to the Programme or any Notes has been, or will be, lodged with the Australian Securities and Investments Commission ("**ASIC**"), the ASX Limited or the financial market operated by it (ASX), or any other stock exchange or trading facility licensed under the Corporations Act. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that unless the relevant Pricing Supplement provides it:

(a) has not (directly or indirectly) made or invited, and will not make or invite, an offer of the Notes for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and

(b) has not distributed or published, and will not distribute or publish, any offering circular or any other offering material or advertisement relating to the Notes in Australia,

unless (a) the aggregate consideration payable by each offeree or invitee is at least A$500,000 (or its equivalent in other currencies, in either case, disregarding moneys lent by the offeror or its associates (as defined in the Corporations Act)) or the offer or invitation otherwise does not require disclosure to investors in accordance with Parts 6D.2 or 7.9 of the Corporations Act; (b) such action complies with all applicable laws, regulations and directives (including without limitation, the licensing requirements set out in Chapter 7 of the Corporations Act); (c) such action does not require any document to be lodged with ASIC or the ASX; and (d) the offer or invitation is not made to a person who is a "retail client" within the meaning of section 761G of the Corporations Act.

In addition, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not sell any Note to any person whom the Issuer has notified the Dealer in writing is an Offshore Associate.

Offshore Associate means an associate (as defined in section 128F of the Income Tax Assessment Act 1936 of Australia and any successor legislation) of the Issuer that is either a non-resident of Australia which does not acquire the Notes in carrying on a business in Australia at or through a permanent establishment in Australia or, alternatively, a resident of Australia that acquires the Notes in carrying on a business in a country outside Australia at or through a permanent establishment in that country.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "Financial Instruments and Exchange Act"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan)

or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Hong Kong

In relation to each Tranche of Notes issued by the Issuer, each Dealer has represented, and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap 571) of Hong Kong) other than (i) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a prospectus as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred

within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(a) to an institutional investor or to a relevant person or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(b) where no consideration is or will be given for the transfer;

(c) where the transfer is by operation of law;

(d) as specified in Section 276(7) of the SFA; or

(e) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAAN16: Notice on Recommendations on Investment Products).

The Netherlands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not and will not make an offer of Notes to the public in the Netherlands in reliance on Article 1(4) of the Prospectus Regulation, unless:

(a) such offer is made exclusively to persons or entities which are qualified investors as defined in the Dutch Financial Supervision Act; or

(b) standard exemption wording and a logo are disclosed as required by Article 5:20(5) of the Dutch Financial Supervision Act, provided in all cases that no such offer of Notes shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an offer of Notes to the public in relation to any Notes in the Netherlands has the meaning given to it in the Prospectus Regulation.

Switzerland

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this Offering Circular nor any other offering or marketing material relating to the Notes may be published, distributed or otherwise made publicly available in Switzerland.

General

Each Dealer understands that no action has been taken in any jurisdiction that would permit a public offering of the Notes or possession or distribution of the Offering Circular or any other document, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes the Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Guarantors, the Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Guarantors, the Trustee, the Arrangers and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

The establishment and update of the Programme and the issue of Notes and/or guarantee of such Notes (as the case may be) under the Programme have been duly authorised by resolutions of the Board of Directors of the Issuer dated 1 June 2016, 11 December 2017 and 11 December 2019. The establishment and update of the Programme and the guarantee of Notes issued thereunder have been duly authorised by resolutions of the Board of Directors of each of the Initial Guarantors dated 1 June 2016, 11 December 2017 and 11 December 2019 and will be authorised by each Additional Guarantor at the time such entity becomes a Guarantor.

Listing

Application has been made to the SGX-ST for permission to deal in and for the listing of any Notes which are agreed at the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. There is no assurance that the application to the Official List of the SGX-ST will be approved. Admission to the Official List of the SGX-ST and listing of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Programme or such Notes. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. If the application to the SGX-ST to list a particular series of Notes is approved, such Notes listed on the SGX-ST will be traded on the SGX-ST in a board lot size of at least S$200,000 (or its equivalent in other currencies).

Unlisted Notes may be issued under the Programme. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series of Notes. The Pricing Supplement relating to each Series of Notes will state whether or not the Notes of such Series will be initially listed on any stock exchange(s) and, if so, on which stock exchange(s) the Notes are to be initially listed.

So long as the Notes (except in relation to AMTNs) are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer to appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Notes or Global Certificates representing such Notes are exchanged for definitive Notes. In addition, if such event occurs, an announcement of such exchange will be made through the SGX-ST and such announcement shall include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

Delisting of Notes

The Trust Deed provides that if the applicable Pricing Supplement indicates that the Notes are listed on a stock exchange (the "**relevant Stock Exchange**"), the Issuer will use its reasonable endeavours to maintain the listing on the relevant Stock Exchange of those of the Notes which are listed on the relevant Stock Exchange but if it is unable to do so, having used such reasonable endeavours, or if the maintenance of such listing is unduly onerous instead use all reasonable endeavours to obtain and maintain a listing of the Notes on another stock exchange and the admission to trading of the Notes on another securities market, in each case approved in writing by the Trustee, and upon obtaining a quotation or listing of such Notes issued by it on such other stock exchange or exchanges or securities market or markets enter into a trust deed supplemental to the Trust Deed to effect such consequential amendments to the Trust Deed as the Trustee may require or as shall be requisite to comply with the requirements of any such stock exchange or securities market.

Clearing Systems

Each series of Bearer Notes will be initially represented by either a Temporary Global Note or a Permanent Global Note that will be deposited on the issue date thereof with a common depositary on behalf of Euroclear and Clearstream, Luxembourg or any other agreed clearance system compatible with Euroclear and

Clearstream, Luxembourg. Each series of Registered Notes will be initially represented by interests in a Global Registered Note and deposited on the issue date thereof with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg. Each Series of AMTNs will (unless otherwise specified in the applicable Pricing Supplement) be registered in the name of Austraclear Ltd and entered in the Austraclear System. The appropriate Common Code and the ISIN for each series of Bearer Notes or Registered Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Notes are to be cleared through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for Determining Price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer, the Guarantors and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

No significant or material change

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Guarantors or the Issuer since 31 December 2017 and there has been no material adverse change in the financial or trading position or prospects of the Guarantors or the Issuer since 31 December 2017.

Litigation

A tax matter is currently outstanding in relation to the treatment of transferred assets. For a number of years, the VPN Tax Consolidated Group (being Victoria Power Networks Pty Ltd and its wholly owned subsidiaries) has been in dispute with the Australian Tax Office (ATO) on the treatment of transferred assets. In December 2018, a court hearing took place. On 7 February 2019, the Federal Court handed down its decision on VPN's transferred assets and cash customer contributions tax matter. The court found in favour of the Commissioner of Taxation. VPN filed Notices of Appeal on cash contributions and gifted assets with the Full Federal Court on 15 March 2019. The ATO filed their Notice of Contention on 17 April 2019. The appeal will be heard in Full Federal Court in Q2 2020. Judgment is expected to be delivered in Q3 2020. The outcome of this dispute is not expected to have any material impact on the business of the Group.

Neither of the Issuer nor the Guarantors is involved in any other material legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer and the Guarantors are aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer and the Guarantors. VPN meets its tax obligations and tax reporting requirements and any material outstanding matters are referenced in the financial statements.

Independent Auditors

The Group's consolidated financial statements as at and for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 were audited by Deloitte Touche Tohmatsu, in accordance with AASB.

Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available for from the registered office of the Issuer and from the specified office of the Issuing and Paying Agent:

(a) the constitutional documents of the Issuer and the Guarantors;

(b) the Group's audited consolidated financial statements in respect of the financial years ended 31 December 2017, 2018 and 2019;

(c) the most recently published audited consolidated annual financial statements of the Guarantors and the most recently published unaudited unconsolidated interim financial statements of the Guarantors (if any), in each case together with any audit or review reports prepared in connection therewith (where relevant);

(d) the Trust Deed, the Australian Deed Poll, the Agency Agreement, the Australian Agency Agreement, and the forms of the Temporary Global Notes, the Permanent Global Notes, the Definitive Bearer Notes, the Receipts, the Coupons, the Talons, the Global Certificates and the Definitive Registered Notes;

(e) a copy of this Offering Circular; and

(f) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplement (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, the Guarantors and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference.

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Victoria Power Networks (Finance) Pty Ltd

ABN 68 101 392 161

Financial Statements
For the year ended 31 December 2019

Victoria Power Networks (Finance) Pty Ltd
Directors' report
31 December 2019

Directors' Report

The directors of Victoria Power Networks (Finance) Pty Ltd ('VPNF' or the 'company') submit herewith their report on the company and its subsidiaries (the 'Consolidated Entity') at the end of, or during, the year ended 31 December 2019.

Directors
The following persons were directors of Victoria Power Networks (Finance) Pty Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

P. P. Tulloch
H. L. Kam
C. T. Wan
A. J. Hunter
R. F. Francis
K. Turner
L. S. Chan
T. H. Rourke

C.P Bennett, G. Dover and G. Couttas were appointed directors on 10 September 2019, 8 November 2019 and 4 December 2019 respectively and continue in office at the date of this report.

N. Schiffer was appointed as a director from the beginning of the financial year until his resignation on 30 August 2019.

A. M. McDonald was a director from the beginning of the financial year until her resignation on 30 November 2019.

N. Donaldson was appointed as a director on 30 August 2019 until his resignation on 8 November 2019.

Principal activities
Victoria Power Networks (Finance) holds the investments in Powercor Australia Ltd, the CitiPower Group, Powercor Network Services Pty Ltd, CHED Services Pty Ltd, Energy Solutions Pty Ltd. The principal activities of the Consolidated Entity during the year were the management and operation of electricity distribution and sub-transmission networks. The primary activity of the distribution businesses is the receipt of electricity from Victoria's high voltage transmission system and the distribution of electricity to customers in the Powercor and CitiPower distribution service areas. Almost all customers within both the Powercor and CitiPower distribution service areas are connected to the relevant distribution network, regardless of which retailer supplies the electricity.

Dividends
Dividends declared during the financial year were as follows:

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Dividends declared and paid	132,827	-
Dividends declared but not paid	164,673	-
	297,500	-

Review of operations
The profit for the Consolidated Entity after providing for income tax amounted to $255,700 thousand (31 December 2018: $228,396 thousand)

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the Consolidated Entity during the financial year.

Matters subsequent to the end of the financial year
No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Likely developments and expected results of operations
No significant changes to the operations of the Consolidated Entity are foreseen.

Environmental regulation
The Consolidated Entity is subject to all environmental legislation as per the *Environmental Protection Act*. During the 12 months ended 31 December 2019 the Consolidated Entity is not aware of any breaches in relation to environmental regulation set under the law of the Commonwealth, the State and any other environmental regulator.

Indemnity and insurance of officers
During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor
The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company
No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Rounding of amounts
The company is of a kind referred to in *Corporations Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors,

T. H. Rourke
Director

3 March 2020

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Victoria Power Networks (Finance) Pty Ltd
40 Market Street
Melbourne VIC 3000

3 March 2020

Dear Board Members

Auditor's Independence Declaration to Victoria Power Networks (Finance) Pty Ltd

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Victoria Power Networks (Finance) Pty Ltd.

As lead audit partner for the audit of the financial statements of Victoria Power Networks (Finance) Pty Ltd for the financial year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

Samuel Vorwerg
Partner
Chartered Accountants

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Member of Deloitte Asia Pacific Limited and the Deloitte Network.

Victoria Power Networks (Finance) Pty Ltd
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General information

The financial statements include Victoria Power Networks (Finance) Pty Ltd as a Consolidated Entity consisting of Victoria Power Networks (Finance) Pty Ltd and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Victoria Power Networks (Finance) Pty Ltd's functional and presentation currency.

Victoria Power Networks (Finance) Pty Ltd is a proprietary company (the 'company'), incorporated and operating in Australia. The company and its subsidiaries listed in Note 36 are referred to as the 'Consolidated Entity'.

Registered office and principal place of business

Level 9
40 Market Street
MELBOURNE VIC 3000

The financial statements were authorised for issue, in accordance with a resolution of directors, on 3 March 2020. The directors have the power to amend and reissue the financial statements.

Victoria Power Networks (Finance) Pty Ltd
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Revenue	1	1,746,278	1,823,420
Other gains / (losses)	2	5,637	(1,024)
Expenses			
Expenses from ordinary activities	3	(1,147,030)	(1,069,009)
Finance expenses	4	(238,953)	(426,949)
Profit before income tax expense		365,932	326,438
Income tax expense	5	(110,232)	(98,042)
Profit after income tax expense for the year		255,700	228,396
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses) / gains on defined benefits plans		(10,980)	6,157
Income tax relating to these items		3,294	(1,847)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges - interest rate risk		(134,762)	(51,784)
Cash flow hedges - foreign currency risk		(1,277)	485
Income tax relating to these items		40,812	15,390
Other comprehensive income for the year, net of tax		(102,913)	(31,599)
Total comprehensive income for the year		152,787	196,797
Profit for the year is attributable to:			
Non-controlling interest		1,092	772
Owners of Victoria Power Networks (Finance) Pty Ltd	25	254,608	227,624
		255,700	228,396
Total comprehensive income for the year is attributable to:			
Non-controlling interest		1,092	772
Owners of Victoria Power Networks (Finance) Pty Ltd		151,695	196,025
		152,787	196,797

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

Victoria Power Networks (Finance) Pty Ltd
Statement of financial position
As at 31 December 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Assets			
Current assets			
Cash and cash equivalents	6	61,603	57,661
Trade and other receivables	7	160,688	160,778
Inventories	8	47,065	45,679
Derivative financial instruments	27	87,530	32,027
Income tax refund due		249	-
Other financial assets	10	-	625
Other assets	11	53,919	21,250
Total current assets		411,054	318,020
Non-current assets			
Investments in associates	9	473	569
Derivative financial instruments	27	278,727	269,847
Property, plant and equipment	12	7,094,946	6,892,549
Right-of-use assets	15	68,451	-
Intangibles	13	820,427	825,315
Retirement benefit assets	14	10,329	26,877
Other financial assets	10	-	375
Total non-current assets		8,273,353	8,015,532
Total assets		8,684,407	8,333,552
Liabilities			
Current liabilities			
Trade and other payables	16	594,461	495,365
Current tax liabilities		-	617
Contract liabilities	18	35,080	9,911
Borrowings	19	993,792	1,081,181
Lease liabilities	17	5,347	-
Derivative financial instruments	27	3,934	762
Provisions	20	101,961	94,073
Other financial liabilities - contingent consideration	21	-	375
Total current liabilities		1,734,575	1,682,284
Non-current liabilities			
Trade and other payables	16	863	42,916
Contract liabilities	18	2,742	3,079
Borrowings	19	3,922,749	3,626,282
Lease liabilities	17	79,742	-
Derivative financial instruments	27	198,970	81,949
Deferred tax liabilities	22	714,298	720,803
Provisions	20	17,820	18,366
Total non-current liabilities		4,937,184	4,493,395
Total liabilities		6,671,759	6,175,679
Net assets		2,012,648	2,157,873

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

Victoria Power Networks (Finance) Pty Ltd
Statement of financial position
As at 31 December 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Equity			
Issued capital	23	1,639,196	1,639,196
Reserves	24	(128,869)	(33,642)
Retained profits	25	500,555	551,133
Equity attributable to the owners of Victoria Power Networks (Finance) Pty Ltd		2,010,882	2,156,687
Non-controlling interest	26	1,766	1,186
Total equity		2,012,648	2,157,873

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

Victoria Power Networks (Finance) Pty Ltd
Statement of changes in equity
For the year ended 31 December 2019

Consolidated	Issued capital $'000	Financial equity reserve $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 January 2018	1,639,196	17,918	(15,650)	319,198	545	1,961,207
Profit after income tax expense for the year	-	-	-	227,624	772	228,396
Other comprehensive income for the year, net of tax	-	-	(35,910)	4,311	-	(31,599)
Total comprehensive income for the year	-	-	(35,910)	231,935	772	196,797
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	-	-	(131)	(131)
Balance at 31 December 2018	1,639,196	17,918	(51,560)	551,133	1,186	2,157,873

Consolidated	Issued capital $'000	Financial equity reserve $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 January 2019	1,639,196	17,918	(51,560)	551,133	1,186	2,157,873
Profit after income tax expense for the year	-	-	-	254,608	1,092	255,700
Other comprehensive income for the year, net of tax	-	-	(95,227)	(7,686)	-	(102,913)
Total comprehensive income for the year	-	-	(95,227)	246,922	1,092	152,787
Transactions with owners in their capacity as owners:						
Dividends declared but not paid	-	-	-	(164,673)	-	(164,673)
Dividends paid	-	-	-	(132,827)	(512)	(133,339)
Balance at 31 December 2019	1,639,196	17,918	(146,787)	500,555	1,766	2,012,648

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

Victoria Power Networks (Finance) Pty Ltd
Statement of cash flows
For the year ended 31 December 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Cash flows from operating activities			
Receipts from customers		1,887,472	1,728,249
Payments to suppliers and employees		(1,207,757)	(1,104,451)
Interest paid		(165,465)	(166,784)
Income taxes paid		(1,734)	(490)
Interest received		564	775
Net (repayment) / receipt of trust monies		(254)	583
Net cash from operating activities	34	512,826	457,882
Cash flows from investing activities			
Payments for property, plant and equipment	12	(512,637)	(500,564)
Payments for intangibles	13	-	(167)
Proceeds from disposal of property, plant and equipment		10,551	4,726
Net inflows from customer deposits		4,777	17,506
Dividends received from associates		147	97
Dividends paid to non-controlling interest		(512)	(138)
Net cash used in investing activities		(497,674)	(478,540)
Cash flows from financing activities			
Dividends paid to shareholders		(132,827)	(153,684)
Proceeds from borrowings - external		1,678,430	1,302,872
Payment of lease liabilities		(4,906)	-
Repayment of borrowings - external		(1,549,491)	(1,092,803)
Payment of establishment costs		(2,416)	(8,056)
Net cash from/(used in) financing activities		(11,210)	48,329
Net increase in cash and cash equivalents		3,942	27,671
Cash and cash equivalents at the beginning of the financial year		57,661	29,990
Cash and cash equivalents at the end of the financial year	6	61,603	57,661

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

Victoria Power Networks (Finance) Pty Ltd
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31 December 2019

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Note 1. Revenue

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Network revenue		
Distribution Use of System	962,142	922,507
Transmission Use of System	287,788	288,402
	1,249,930	1,210,909
Other operating revenue		
Construction and maintenance revenue	232,425	158,988
Prescribed metering	85,799	92,980
Alternative Control Services - connections and transfers	19,654	18,651
Alternative Control Services - public lighting	12,849	12,715
Alternative Control Services - other	28,162	25,400
Service level agreement revenue - related party	28,894	33,628
Interest income - external party	564	768
Other revenue from contracts with customers	13,558	13,395
Other miscellaneous revenue	8,107	9,888
Interest income - related party	66,336	246,098
	496,348	612,511
Revenue	1,746,278	1,823,420

(a) Recognising revenue from major business activities

(i) Network revenue
Timing of recognition: Network revenue represents distribution use of system and transmission use of system revenue from electricity retailers for the transportation and delivery of electricity through the distribution system to their customers. Revenue is calculated on a per energy retailer customer basis for electricity consumed, time connected to the distribution network and/or demand based charges.

The use of system contract includes one performance obligation, which is to provide distribution services. This performance obligation is satisfied when the end customer receives electricity. The company promises to provide transport and deliver electricity through the distribution system to their customers. This performance obligation is satisfied over time as the customer is able to simultaneously consume the electricity transmitted and distributed to the customer's location.

Transaction price: Rates per quantity unit and customer tariff type are approved by the Australian Energy Regulatory (AER) each year. The method utilised to recognise revenue for the use of system contract is an output method, which is based on actual volume of electricity distributed and actual number of customers serviced each period.

(ii) Construction and maintenance revenue
Timing of recognition: Construction revenue represents electricity related contracted services including design & construct, asset maintenance, commercial solar installations and other similar activities.

The delivery of a construction contract includes one performance obligation, which is to develop an asset for a customer. This performance obligation is satisfied over time either because the customer simultaneously benefit from the maintenance services completed and the work performed enhances the customer's assets; or the new assets are highly specific for the customer and the company has the right to receive payment for all the services performed at the end of each reporting period.

The method utilised to recognise revenue for the construction revenue is an input method, which is based on actual labour cost and materials consumed to perform the required service during each reporting period.

Transaction price: Revenue is recognised in line with contracted amounts. Variations in contract work claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Note 1. Revenue (continued)

(iii) Prescribed metering revenue
Timing of recognition: Prescribed metering revenue comprises charges to cover the cost of maintaining, operating and replacing the meter once it has reached the end of its economic life. A per annum charge varies depending on the meter type installed. The distribution businesses promise to provide metering maintenance services to their customers. This performance obligation is satisfied over time as there is a stand-ready obligation to provide metering maintenance services on an on-going basis.

Transaction price: Prescribed metering revenue is based on a metering charge set by meter type as approved by the AER each year.

(iv) Alternative Control Services Revenue
Timing of recognition: Alternative Control Services (ACS) revenue relates to a set of customer specific activities, primarily on behalf of electricity retailers, that fall under a particular area of regulation due to their monopoly or semi-monopoly nature.

ACS activities are of short duration and are recognised either when performed or if the charge is based on duration of the service, such as public lighting.

Transaction price: Rates per activity are based on either a fixed fee approved by the AER or hourly labour rates approved by the AER and recovery of materials at cost.

(v) Service level agreement revenue
Timing of recognition: Service level agreement revenue relates to IT system, support and management services provided to entities outside of the Consolidated Entity. Revenue is recognised as services are performed.

Transaction price: Revenue is based on agreed contracted rates for services.

(vi) Interest income – related party
Interest income from related party relate to unwinding of discounting on intercompany tax receivables with entities in the tax consolidated group.

	Point in time		Over time		Total	
Revenue from contract types	**2019 ($'000)**	**2018 ($'000)**	**2019 ($'000)**	**2018 ($'000)**	**2019 ($'000)**	**2018 ($'000)**
Regulated - Network revenue						
Distribution Use of System	-	-	962,142	922,507	962,142	922,507
Transmission Use of System	-	-	287,788	288,402	287,788	288,402
	-	-	1,249,930	1,210,909	1,249,930	1,210,909
Semi-Regulated and Unregulated – Other operating revenue						
Construction and maintenance revenue	-	-	232,425	158,988	232,425	158,988
Prescribed metering	-	-	85,799	92,980	85,799	92,980
Alternative Control Services - connections and transfers	19,654	18,651	-	-	19,654	18,651
Alternative Control Services - public lighting	-	-	12,849	12,715	12,849	12,715
Alternative Control Services - other	5,895	5,625	22,267	19,775	28,162	25,400
Service level agreement revenue - related party	-	-	28,894	33,628	28,894	33,628
Other revenue from contracts with customers	6,961	6,827	6,597	6,568	13,558	13,395
	32,510	31,103	388,831	324,654	421,341	355,757

Unsatisfied performance obligation
The unsatisfied performance obligations as at 31 December 2019 relate to construction revenue of $146,461 thousand (2018: $81,652 thousand). Management expects that 100% of the transaction price allocated to the unsatisfied contracts as at 31 December 2019 will be recognised as revenue during the next reporting period.

Revenue recognised in relation to contract liabilities
Revenue recognised in the financial year ended 31 December 2019 that was included in the contract liability balance at the beginning of the financial year was $8,663 thousand.

Note 1. Revenue (continued)

(b) Critical accounting policies, estimates and assumptions
There is a certain level of estimation involved in the measurement of the Consolidated Entity's revenue, which includes:

- In relation to network revenue, accrual estimates for the amount of electricity consumed but not billed at period end; and
- In relation to construction and maintenance revenue an estimation of stage of completion.

As the basis of estimation for distribution revenue is based on actual electricity consumption, the directors do not envisage significant uncertainty risk with respect to amounts recorded in relation to applying the revenue recognition accounting policies.

Note 2. Other gains / (losses)

	Consolidated 2019 $'000	Consolidated 2018 $'000
Gain on disposal of property, plant and equipment	5,193	157
(Loss) / gain cross currency interest rate swap - fair value hedge (hedging instrument)	(108,251)	25,024
Gain / (loss) on foreign currency bank loan - fair value hedge relationship (hedged item)	109,718	(27,076)
(Loss) / gain on cross currency interest rate swap not designated in a hedge relationship	(1,074)	435
Gain on foreign currency bank loan not designated as a hedged item in a hedge relationship	-	138
Gain on investment in associate	51	298
	5,637	(1,024)

Note 3. Expenses from ordinary activities

	Consolidated 2019 $'000	Consolidated 2018 $'000
Personnel expense	385,095	344,528
Transmission fees	287,788	288,402
Materials expense	180,780	169,003
Capitalised expenses*	(535,183)	(495,516)
External services	479,877	387,274
Operating lease rentals	4,226	12,203
Other expenses	8,104	20,109
Depreciation and amortisation expense	316,441	325,092
Taxes, fees & charges	19,902	17,914
	1,147,030	1,069,009

* Capitalised expenses include a combination of external labour, construction and professional services, materials expense and personnel expense.

Note 4. Finance expenses

	Consolidated 2019 $'000	Consolidated 2018 $'000
Interest and finance expenses - external parties	164,457	164,403
Interest and finance expenses - related parties	70,769	262,546
Interest expenses - leases	3,727	-
	238,953	426,949

(a) Interest and finance expenses – related parties

Interest and finance expenses to related parties relate to unwinding of discounting on intercompany tax payable with Victoria Power Networks Pty Ltd (VPN) as head entity in the tax consolidated group. The non-cash interest expense was higher in 2018 due to a change in assumption in the timing of settling the intercompany tax balances.

Note 5. Income tax expense

The current tax expense does not include the impact of carry forward tax losses of the VPN tax consolidated group. The VPN tax consolidated group has no current tax obligations.

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Income tax expense		
Current tax expense in respect of the current year	147,833	130,101
Deferred tax - origination and reversal of temporary differences	(37,601)	(31,896)
Adjustments for current tax of prior periods	-	(163)
Aggregate income tax expense	110,232	98,042
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	365,932	326,438
Tax at the statutory tax rate of 30%	109,780	97,931
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	452	313
Non-assessable income	-	(39)
	110,232	98,205
Adjustments for current tax of prior periods	-	(163)
Income tax expense	110,232	98,042

Income tax recognised in comprehensive income

	2019	**2018**
	$'000	**$'000**
Deferred tax		
Cash flow hedges	10,812	15,390
Other reserves	3,294	(1,847)
	14,106	13,543

Note 5. Income tax expense (continued)

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for the current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income or accounting profit. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

Tax consolidation legislation

Victoria Power Networks Pty Ltd (VPN) and its wholly owned Australian resident entities (including Victoria Power Networks (Finance) Pty Ltd) are part of a tax consolidated group under Australian taxation law. VPN is the head entity in the tax consolidated group. Tax expense / benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by VPN (as head entity in the tax consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(b) Critical accounting judgements, estimates and assumptions
(i) Income taxes

The Consolidated Entity applies the criteria outlined in AASB 112 *Income Taxes* with regards to the calculation and recognition of deferred tax assets. The application of the AASB 112 criteria involves the exercise of judgement regarding the calculation of accounting and tax bases for the Consolidated Entity's assets and liabilities. Furthermore, the potential reversal of temporary differences also requires the use of estimates of future profitability, availability of taxable profits on both revenue and capital account and potential future changes in accounting and tax bases.

In particular, the expectation of the availability of future taxable profits against which deferred tax assets arising in respect of revenue losses is subject to estimation and judgement.

(ii) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Consolidated Entity considers it is probable that future taxable amounts will be available to utilise those temporary differences.

Note 6. Cash and cash equivalents

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current assets		
Cash at bank and in hand	61,603	48,071
Deposits at call	-	9,590
	61,603	57,661

Cash and cash equivalents accounting policies

Cash and cash equivalents include cash on hand, cash at bank and deposits at call with financial institutions.

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours notice with no loss of interest.

Note 7. Trade and other receivables

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current assets		
Trade receivables	2,357	3,526
Less: Allowance for expected credit losses	(1)	(3)
	2,356	3,523
Other receivables	42,174	41,991
Less: Allowance for expected credit losses	(4,339)	(8,100)
	37,835	33,891
Contract assets - unbilled electricity	108,343	104,934
Contract assets - other	12,154	18,430
	120,497	123,364
	160,688	160,778

(a) Trade and other receivables accounting policies

(i) Trade receivables
Trade receivables are primarily for network fees which are received from electricity retailers. The retailer payments are governed by a Use of System Agreement which stipulates that all payments are to be made on the tenth day after monthly invoicing.

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.

Note 7. Trade and other receivables (continued)

(ii) Other receivables
Other receivables are predominantly from revenue for any non-electricity tariff services including customer initiated augmentation work, Alternative Control Services and external project work.

(iii) Contract assets
Contract assets - unbilled electricity is an estimate of electricity consumption unbilled and unread at the end of the reporting period.

(iv) Fair value and credit risk
Due to the short-term nature of the current receivables, their fair value is considered the same as their carrying value.

(v) Impairment and risk exposure
Trade receivables and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Consolidated Entity holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Consolidated Entity's impairment policies, the Consolidated Entity's exposure to credit risk, foreign currency risk and interest rate risk and the calculation of the loss allowance are provided in Note 28(e).

(b) Critical accounting judgments, estimates and assumptions

Allowance for expected credit losses
The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent contract performance and historical collection rates.

Note 8. Inventories

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current assets		
Construction, general purpose, AMI meters & maintenance stock	47,065	45,679

Inventories accounting policies

Costs are assigned to inventory on hand on the basis of weighted average costs. Inventories are valued at the lower of cost or net realisable value.

Note 9. Investments in associates

	Consolidated 2019 $'000	Consolidated 2018 $'000
Non-current assets		
Investments in associates	473	569
Movements in shares in associates		
Carrying amount at the beginning of the financial year	569	368
Share of profits after income tax	51	298
Distributions received	(147)	(97)
Carrying amount at the end of the financial year	473	569

(a) Interests in associates

Name of entity	Ownership 2019 %	Ownership 2018 %	Carrying amount 2019 $'000	Carrying amount 2018 $'000
ENEA Australia Pty Ltd	49%	49%	473	569

(b) Investment in associates accounting policies

Investment in associates are recorded at cost. Investments in associates are accounted for under equity accounting and the carrying value of the investment is valued based on the share of profit in the entity and transactions with owners.

Note 10. Other financial assets

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current assets		
Term deposit	-	625
Non-current assets		
Term deposit	-	375

Note 11. Other assets

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current assets		
Prepayments	26,053	14,484
Deferred transmission fees	27,866	6,766
	53,919	21,250

Other assets accounting policies

Transmission fees deferred/provided for represent the present value of management's best estimates of the future economic benefits/sacrifices that will be received/incurred for transmission costs under/over collected through current electricity tariffs charged to customers.

Note 12. Property, plant and equipment

	Consolidated 2019 $'000	Consolidated 2018 $'000
Non-current assets		
Freehold Land - at cost	146,336	145,392
Freehold buildings - at cost	249,138	215,130
Less: Accumulated depreciation	(79,940)	(71,270)
	169,198	143,860
Plant and equipment - at cost	1,085,434	996,343
Less: Accumulated depreciation	(462,262)	(364,593)
	623,172	631,750
Distribution system - at cost	8,569,323	8,192,154
Less: Accumulated depreciation	(2,413,083)	(2,220,607)
	6,156,240	5,971,547
	7,094,946	6,892,549

Consolidated	Freehold Land $'000	Freehold buildings $'000	Plant and equipment $'000	Distribution System $'000	Total $'000
Balance at 1 January 2018	142,760	151,177	629,881	5,790,177	6,713,995
Additions	2,779	8,559	103,863	385,363	500,564
Disposals	(147)	(212)	(257,476)	71	(257,764)
Disposals - accumulated depreciation	-	166	254,382	(1,060)	253,488
Depreciation expense	-	(15,830)	(98,900)	(203,004)	(317,734)
Balance at 31 December 2018	145,392	143,860	631,750	5,971,547	6,892,549
Additions	1,628	34,925	97,469	378,615	512,637
Disposals	(684)	(917)	(8,378)	(1,446)	(11,425)
Disposals - accumulated depreciation	-	56	4,570	1,442	6,068
Depreciation expense	-	(8,726)	(102,239)	(193,918)	(304,883)
Balance at 31 December 2019	146,336	169,198	623,172	6,156,240	7,094,946

As at 31 December 2019, $454,332 thousand (2018: $427,735 thousand) of capital work in progress was included in the distribution system category carrying value.

Note 12. Property, plant and equipment (continued)

(a) Property, plant and equipment accounting policies

Property, plant and equipment are stated as cost less accumulated depreciation and impairment (if any).

(i) Cost
The purchase method of accounting is used for all acquisition of assets. Cost is determined as the fair value of the assets given up, or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Construction work in progress is stated at cost plus attributable overheads. Cost includes all costs directly related to specific projects including materials, labour and an allocation of overhead expenses.

(ii) Depreciation
Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land.

Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. The following estimated useful lives are used in the calculation of depreciation in current and prior periods.

Buildings	40 years
Plant and equipment	3-20 years
Distribution system	15-80 years

Assets in the course of construction are not subject to depreciation until they are put into use.

(iii) Impairment
Other assets, including property, plant and equipment, 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 assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets fair value less costs of disposal and its value in use. No impairment of other assets including property, plant and equipment has been recognised during the period.

(iv) Asset sales
The net proceeds on disposal of assets are brought to account at the date when control passes to the purchaser, usually when an unconditional contract of sale is signed.

(b) Critical accounting judgements, estimates and assumptions

Estimation of useful lives of assets
The Consolidated Entity determines the estimated useful lives and related depreciation for its property, plant and equipment. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Note 13. Intangibles

	Consolidated 2019 $'000	Consolidated 2018 $'000
Non-current assets		
Goodwill - at cost	1,311	1,311
Intellectual property - at cost	109,311	109,311
Less: Accumulated amortisation	(68,415)	(65,263)
	40,896	44,048
Software - at cost	20,523	20,523
Less: Accumulated amortisation	(15,425)	(13,689)
	5,098	6,834
Licences	773,122	773,122
	820,427	825,315

Consolidated	Goodwill $'000	Intellectual Property $'000	Software $'000	Licenses $'000	Total $'000
Balance at 1 January 2018	1,311	47,230	11,137	773,122	832,800
Additions	-	-	167	-	167
Disposals	-	(33,929)	(183,986)	-	(217,915)
Disposals - accumulated amortisation	-	33,929	183,692	-	217,621
Amortisation expense	-	(3,182)	(4,176)	-	(7,358)
Balance at 31 December 2018	1,311	44,048	6,834	773,122	825,315
Amortisation expense	-	(3,152)	(1,736)	-	(4,888)
Balance at 31 December 2019	1,311	40,896	5,098	773,122	820,427

(a) Intangible assets accounting policies

(i) Goodwill
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, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Distribution licences
The distribution licences are an exclusive licence to distribute electricity within a defined geography or service territory.

The factors that played a significant role in determining that the licence has an indefinite life are as follows:
- the licence is an exclusive licence to distribute electricity within the defined service territories, or geographic regions;
- the licence is vested in perpetuity, subject to ongoing compliance with the licence conditions; and
- there is presently no available technology which is likely to replace the method of distribution of electricity.

Impairment is reviewed at each reporting period date and whenever there is an indication that the distribution licence may be impaired.

Impairment of intangible assets
Determining whether distribution licence assets are impaired require an estimation of the fair value less costs of disposal of the cash-generating units to which the licence belongs. The fair value less costs of disposal calculation required the directors to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

(iii) Software
The value of software assets are recorded at cost. Software assets are amortised on a straight line basis over the life of the asset.

Note 13. Intangibles (continued)

(iv) Intellectual property
Intellectual property represents distribution network assets and systems. The values of these assets are recorded at cost, based on a fair value determined by reference to independent valuations. Intellectual property is amortised on a straight line basis over the period during which the benefits are expected to arise, which is currently a maximum of twenty years. The unamortised balance of the intellectual property is reviewed each balance date and charged to the income statement to the extent that the future benefits are no longer probable.

(v) Amortisation methods and useful lives
Amortisation is provided on intellectual property and software. Amortisation is amortised on a straight line basis so as to write off the net cost over the periods benefits are expected to arise. The amortisation periods are as follows:

Intellectual Property	20 years
Software	3-10 years

(b) Critical accounting judgements, estimates and assumptions

Determining cash generating units and impairment testing
Indefinite life intangible assets have been allocated to two cash-generating units, the Powercor and CitiPower electricity distribution networks, for the purposes of completing the annual impairment test. The balance of $773,122 thousand has been allocated between the Powercor and CitiPower cash-generating units at $608,837 thousand (2018: $608,837 thousand) and $164,285 thousand (2018: $164,285 thousand) respectively. The basis on which these cash-generating units' recoverable amounts have been determined is their fair value less costs of disposal.

A five year discounted cash flow analysis has been used to determine fair value less costs of disposal. The discount rate used in the analysis was 3.03% (2018: 4.06%).

The key assumptions on which management have based their assessment of future cash-flows and the approach to determining values for each were:

Terminal value
The terminal value was based on a multiple of the Regulated Asset Base (RAB) of the CitiPower and Powercor distribution networks. The RAB multiple used is in line with current market transactions.

Regulated revenue and expenditures
Regulated revenues and expenditures for the period 2020 to 2024 are primarily based on the Australian Energy Regulator's 2016 to 2020 Electricity Distributions Price Review decision and current business plan for years subsequent to the 2020 determination. Electricity distribution revenue is based on the application of a 'revenue cap' to control distribution revenues during the regulatory control period, such that distribution revenues are no longer impacted by fluctuating volumes.

Non-regulated revenue and expenditure
Non-regulated revenue and expenditure were based on management's best estimates with reference to historic performance.

The discounted cash flow model is not particularly sensitive to any assumption, such that a reasonably possible change in any assumption would not result in an impairment of the indefinite life intangible assets.

Note 14. Retirement benefit assets

Defined benefit superannuation plans

Powercor Australia Limited and CitiPower Pty Ltd (entities within the Consolidated Entity) operate defined benefit superannuation plans for qualifying employees. Under the plans, the employees are entitled to retirement benefits based on their final salary at the time of retirement or resignation. No other post-retirement benefits are provided to these employees.

The defined benefit superannuation plans are funded plans. The Equipsuper Contribution and Funding Policy provides for a review of the financial position of the Plans each six months, as at 30 June and 31 December, with the company contribution rate comprising a long term contribution rate and an adjustment to meet the financing objective of a funding ratio of 105%.

The funding ratio is the ratio of assets to accrued liabilities, being the greater of vested benefits and the present value of past membership benefits. Where the funding ratio is greater than 100% the primary financing objective is to achieve 105% over five years. Where the funding ratio is less than 100% the primary financing objective is to achieve 100% over three years and 105% over five years.

In the most recent review of the financial position as at 30 June 2019 the actuary recommended a company contribution rate of nil. The next review of the financial position and company contribution rate is to be completed by 31 March 2020.

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years or every year if the plan pays defined benefit pensions.

The plan's trustee is responsible for the governance of the plan. The trustee has a legal obligation to act solely in the best interests of plan beneficiaries. The trustee has the following roles:

- Administration of the plan and payment to the beneficiaries from plan assets when required in accordance with the plan rules;
- Management and investment of the plan assets; and
- Compliance with superannuation law and other applicable regulations.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licences and supervises regulated superannuation plans.

The expected return on plan assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for correlations of the investment returns between asset classes. The expected long-term returns for each asset class are determined by investment specialists based on their long term forecasts for each asset class. The returns used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has been deducted from the expected return.

Statement of financial position amounts
The amounts recognised in the statement of financial position are determined as follows:

	Consolidated	
	2019	2018
	$'000	$'000
Non-current assets		
Present value of the defined benefit obligation	(305,859)	(279,401)
Fair value of defined benefit plan assets	316,188	306,278
Net asset in the statement of financial position	10,329	26,877

Fair value of Plan assets

Consolidated entity	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Asset category				
Investment funds	316,188	-	316,188	-

Note 14. Retirement benefit assets (continued)

Categories of plan assets
The major categories of plan assets are as follows:

	Consolidated 2019 %	Consolidated 2018 %
Cash and cash equivalents	12.0%	17.0%
Equity instruments	33.0%	33.0%
Debt instruments	19.0%	21.0%
Property	13.0%	12.0%
Other assets	23.0%	17.0%

Reconciliations

	Consolidated 2019 $'000	Consolidated 2018 $'000
Reconciliation of the present value of the defined benefit obligation, which is fully funded:		
Balance at the beginning of the year	279,401	281,186
Current service cost	6,498	7,143
Interest cost	10,393	9,684
Actuarial losses / (gains) arising from changes in financial assumptions	40,166	(8,013)
Actuarial (gains) / losses arising from experience	(12,782)	1,312
Benefits paid	(19,384)	(13,633)
Other	(1,254)	(1,210)
Contribution by plan participants	2,821	2,932
Balance at the end of the year	305,859	279,401
Reconciliation of the fair value of plan assets:		
Balance at the beginning of the year	306,278	308,183
Actuarial return on plan assets less interest income	16,404	(536)
Benefits paid	(19,384)	(13,633)
Interest income	11,323	10,542
Contributions from plan participants	2,821	2,932
Other	(1,254)	(1,210)
Balance at the end of the year	316,188	306,278

Note 14. Retirement benefit assets (continued)

Significant actuarial assumptions
The significant actuarial assumptions used (expressed as weighted averages) were as follows:

	Consolidated	
	2019 %	2018 %
Discount rate	2.4%	3.6%
Future salary increases	3.5%	3.5%
Expected rate of pension increase	2.5%	2.5%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

			Impact on defined benefit obligation			
	Change in assumption (%)		Increase in assumption ($'000)		Decrease in assumption ($'000)	
	2019	2018	2019	2018	2019	2018
Discount rate	0.5%	0.5%	(14,324)	(12,650)	15,384	13,544
Salary rate	0.5%	0.5%	10,271	10,755	(9,812)	(10,256)

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Risk exposure

There are a number of risks to which the plans expose the Consolidated Entity. The more significant risks relating to the defined benefits are:

- Investment risk - the risk that investment returns will be lower than assumed and the Consolidated Entity will need to increase contributions to offset this shortfall.
- Salary growth risk - the risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk - the risk is that legislative changes could be made which increase the cost of providing the defined benefits.
- Pension risks - the risk is firstly that pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period. Secondly, that a greater proportion of eligible members will elect to take a pension benefit, which is generally more valuable than the corresponding lump sum benefit.
- Inflation risk - the risk that inflation is higher than anticipated, increasing pension payments, and thereby requiring additional employer contributions.

Defined benefit superannuation accounting policies

For defined benefit superannuation plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in full, directly in other comprehensive income, in the period in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The defined benefit (liability)/asset recognised in the Statements of Financial Position represents the present value of the defined benefit obligation adjusted for unrecognised past service cost, net of the fair value of plan assets.

Any asset resulting from this calculation is limited to the past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The plan assets are invested by the trustee in a pool of assets with plans providing defined benefits for other employers. The assets have a benchmark weighting to equities of 50% and therefore the plan has a significant concentration of equity market risk. However within the equity investments, the allocation both globally and across the sectors is diversified.

Note 14. Retirement benefit assets (continued)

Critical accounting estimates and judgements

(i) Discount Rate applied to Defined Benefits

As discussed in above, defined benefit plan obligations are discounted to present value. The discount rate is determined by reference to the market yield on high quality corporate bonds from observable yield curves.

(ii) Assumptions used in actuarial valuation

The Consolidated Entity relies on valuations performed by suitably qualified actuaries in recognising the defined benefit superannuation plan accounting. Disclosures regarding the outcomes of such valuations and the key assumptions used have been outlined above.

Note 15. Right-of-use assets

	Consolidated	
	2019	2018
	$'000	$'000
Non-current assets		
Land and buildings - right-of-use	68,451	-

On transition date of AASB 16 *Leases* on 1 January 2019, the right-of use (ROU) assets recognised was $75,353 thousand. Additions to the right-of-use (ROU) assets during the 2019 financial year were $70 thousand and depreciation expense of $6,670 thousand.

Refer to Note 17 for accounting policies for leases.

Note 16. Trade and other payables

	Consolidated	
	2019	2018
	$'000	$'000
Current liabilities		
Trade payables	180,237	162,041
Accrued interest - other	26,266	27,508
Goods & services tax (GST) payable	17,803	14,163
Other payables	4,641	5,922
Trust funds & deposits	1,104	933
Customer deposit	117,925	113,149
Payable to related party	81,812	171,542
Deferred lease incentive	-	107
Dividend payable	164,673	-
	594,461	495,365
Non-current liabilities		
Trust funds & deposits	863	1,090
Deferred lease incentive	-	14,766
Payable to related party	-	27,060
	863	42,916

The carrying amounts of current trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

Trade and other payables accounting policies

(i) Trade and other payables
These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial period which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(ii) Accrued interest
Accrued interest is the amount of interest that has accumulated on a borrowing since the last interest payment date which is still unpaid at the end of the reporting period.

(iii) Trust funds and deposits
Where customers are required to lodge security deposits for electricity connection works, the deposits will be refunded with interest over the period specified in each individual contract. All balances held in this category are included in the Statement of Financial Position.

(iv) Customer deposits
Where customers request augmentation works, deposits are received in advance of works commencing.

(v) Payable to related party
Balance represents an intercompany payable with Victoria Power Networks Pty Ltd (VPN) in accordance with the taxation funding arrangement for the VPN tax consolidated group. The current portion of the balance represents the tax payable which will be cash settled within 12 months.

(vi) Dividend payable
Dividend payable represents dividends declared by the Board of Directors but not yet paid at balance date.

Note 17. Lease liabilities

	Consolidated 2019 $'000	2018 $'000
Current liabilities		
Lease liability	5,347	-
Non-current liabilities		
Lease liability	79,742	-

	Consolidated 2019 $'000	2018 $'000
Amounts recognised in the statement of profit or loss		
Depreciation charge on right-of-use assets - Buildings	6,670	-
Interest expense on lease liabilities	3,727	-

The total cash outflow for leases in 2019 was $8,632 thousand.

(a) Changes in accounting policies
The Consolidated Entity leases various offices in Victoria. Rental contracts are typically made for fixed periods ranging from 6 months to 15 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Consolidated Entity has adopted AASB 16 *Leases* retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the accounting standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of AASB 16, the Consolidated Entity recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.2%.

(b) Accounting policies for leases
A lease liability is recognised at the commencement date of a lease and measured at amortised cost using the effective interest method. The lease liability is initially measured as the net present value of:

- fixed payments less any lease incentives receivable;
- variable lease payments that depend on an index or a rate; and
- amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Consolidated Entity's incremental borrowing rate.

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises:

- the initial amount of the lease liability;
- any lease payments made at or before the commencement date net of any lease incentives received;
- any initial direct costs incurred; and
- an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset.

The carrying amounts are remeasured if there is a change in the following:

Note 17. Lease liabilities (continued)

- future lease payments arising from a change in an index or a rate used;
- residual guarantee;
- lease term;
- certainty of a purchase option and termination penalties.

When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

(c) Practical expedients applied

In applying AASB 16 for the first time, the Consolidated Entity has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Consolidated Entity has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Consolidated Entity relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(d) Impact of adoption

	2019 $'000
Operating lease commitments disclosed as at 31 December 2018	116,794
Discounted using the lessee's incremental borrowing rate at the date of initial application	(26,277)
(Less): short-term leases not recognised as a liability	(289)
Lease liability recognised as at 1 January 2019	90,228
Of which are:	
Current lease liabilities	4,860
Non-current lease liabilities	85,368
	90,228

(e) Critical accounting judgements, estimates and assumptions

Incremental borrowing rate

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Consolidated Entity, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Consolidated Entity:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the company, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, currency and security.

Note 18. Contract liabilities

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current liabilities		
Contract liabilities	35,080	9,911
Non-current liabilities		
Contract liabilities	2,742	3,079

Contract liabilities accounting policy
Contract liabilities represent the Consolidated Entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Consolidated Entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Consolidated Entity has transferred the goods or services to the customer.

Note 19. Borrowings

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current liabilities		
Bank loans	728,420	830,000
Medium term notes	-	150,000
Foreign denominated notes	265,372	101,181
	993,792	1,081,181
Non-current liabilities		
Medium term notes	930,000	918,618
Fixed rate note	536,857	528,978
Foreign denominated notes	2,455,892	2,178,686
	3,922,749	3,626,282

(i) Compliance with loan covenants
Victoria Power Networks (Finance) Pty Ltd has complied with the financial covenants of its borrowing facilities during the 2019 and 2018 reporting periods.

(ii) Risk exposures
Details of the Consolidated Entity's exposure to risks arising from current and non-current borrowings are set out in note 28.

(iii) Borrowings accounting policies
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

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

Note 20. Provisions

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current liabilities		
Employee benefits	94,157	75,892
Environmental provision	500	500
Vegetation management	-	5,300
Legal claims	4,640	7,965
Onerous lease	224	749
Other	1,133	2,360
Uninsured losses	1,307	1,307
	101,961	94,073
Non-current liabilities		
Employee benefits	4,622	4,821
Environmental provision	13,198	13,545
	17,820	18,366

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Consolidated - 2019	Employee benefits $'000	Uninsured losses $'000	Vegetation Management $'000	Legal Claims $'000	Environment $'000	Onerous Contracts $'000	Other $'000
Carrying amount at the start of the year	80,713	1,307	5,300	7,965	14,045	749	2,360
Additional provisions recognised	30,129	-	-	4,700	-	-	1,000
Reductions arising from payments/other sacrifices of future economic benefits	(25,679)	-	(5,300)	(8,025)	(27)	-	(2,227)
Reduction / addition resulting from re-measurement or settlement without cost	13,616	-	-	-	(320)	(525)	-
Carrying amount at the end of the year	98,779	1,307	-	4,640	13,698	224	1,133

Amounts not expected to be settled within the next 12 months
The leave obligations cover the Consolidated Entity's liability for long service leave and annual leave.
The current provision for employee benefits includes accrued annual leave and long service leave. Long service leave covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The current portion of the provision of $94,157 thousand (2018 - $75,892 thousand) is presented as current, since the Consolidated Entity does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Consolidated Entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated 2019 $'000	Consolidated 2018 $'000
Employee benefits obligation expected to be settled after 12 months	76,533	59,510

Note 20. Provisions (continued)

(a) Information about individual provisions and significant estimates

Employee benefits

The provision for employee benefits relates to the Consolidated Entity's liability for long service leave and annual leave.

Environment provision

The environmental provision represents the present value of management's best estimate of the future sacrifice of economic benefits that will be required to remediate network sites.

Vegetation management

The provision for vegetation management represents the present value of management's best estimate of the future sacrifice of economic benefits that will be required in order to maintain compliance with the Electricity Safety Regulations in low bushfire risk areas. Provision was fully utilised in 2019.

Legal claims

The provision for legal claims represents the present value of management's best estimate of the future sacrifice of economic benefits that will be required to settle legal claims.

Onerous contracts

The onerous contracts provision represents the present value of management's best estimate of the future sacrifice of economic benefits to finalise construction contracts with customers where the project is forecast to be loss making.

Uninsured losses

The provision for uninsured losses represents the present value of management's best estimate of the future sacrifice of economic benefits that will be required to settle public liability and personal injury claims received which are not covered by the insurance policies of the Consolidated Entity.

(b) Accounting policies for provisions

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(c) Critical accounting judgements, estimates and assumptions

Employee Benefits

The Consolidated Entity relies on valuations performed by suitably qualified actuaries in recognising the defined benefit superannuation plan accounting. Note 14 provides disclosures regarding the outcomes of such valuations and the key assumptions used.

Discount Rate applied to Employee Entitlements and Defined Benefits

Long term employee benefits balances and defined benefit plan obligations are discounted to present value. The discount rate is determined by reference to the market yield on high quality corporate bonds from observable yield curves.

Environment provision

The Consolidated Entity relies on valuations performed by Environmental Specialists to estimate clean-up costs.

Note 21. Other financial liabilities - contingent consideration

	Consolidated	
	2019	2018
	$'000	$'000
Current liabilities		
Other (contingent consideration)	-	375

As at 31 December 2018, the contingent consideration represented the estimated fair value of the contingent consideration relating to the acquisition of NG Group Holdings Pty Ltd. This amount was paid out in 2019.

Note 22. Deferred tax liabilities

(i) Taxable and deductible temporary differences

2019	Opening balance $'000	Charged to income $'000	Charged to other comprehensive income $'000	Closing balance $'000
Property, plant and equipment	(586,671)	(34,038)	-	(620,709)
Intangible assets	(181,225)	-	-	(181,225)
Provisions	34,611	1,265	-	35,876
Accrued revenue	(2,887)	(5,472)	-	(8,359)
Doubtful debts and impairment losses	2,431	(1,129)	-	1,302
Deferred income	4,421	39	-	4,460
Prepayments	(927)	(302)	-	(1,229)
Defined benefit superannuation liability	(8,063)	1,670	3,294	(3,099)
Cash flow hedges	22,098	-	40,812	62,910
Investment in associates	(254)	141	-	(113)
Other	102	(1,633)	-	(1,531)
Leases	-	528	-	528
Discounting of inter-company losses	(4,439)	1,330	-	(3,109)
	(720,803)	(37,601)	44,106	(714,298)

2018	Opening balance $'000	Charged to income $'000	Charged to other comprehensive income $'000	Closing balance $'000
Property, plant and equipment	(611,179)	24,508	-	(586,671)
Intangible assets	(181,225)	-	-	(181,225)
Provisions	34,761	(150)	-	34,611
Accrued revenue	(3,986)	1,099	-	(2,887)
Doubtful debts and impairment losses	2,596	(165)	-	2,431
Deferred income	4,358	63	-	4,421
Prepayments	(891)	(36)	-	(927)
Defined benefit superannuation liability	(8,099)	1,883	(1,847)	(8,063)
Cash flow hedges	6,708	-	15,390	22,098
Investment in associates	(81)	(173)	-	(254)
Other	169	(67)	-	102
Discounting of inter-company losses	(9,373)	4,934	-	(4,439)
	(766,242)	31,896	13,543	(720,803)

(ii) Deferred tax assets and liabilities

Note 22. Deferred tax liabilities (continued)

	Consolidated 2019 $'000	2018 $'000
Deferred tax assets comprise:		
Temporary differences	105,077	63,663
Deferred tax (liabilities) comprise:		
Temporary differences	(819,375)	(784,466)
Net deferred tax liability	(714,298)	(720,803)

Note 23. Issued capital

	Consolidated			
	2019 Shares	2018 Shares	2019 $'000	2018 $'000
Ordinary shares - fully paid	500	500	1,639,196	1,639,196

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and have no special voting rights.
Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Capital risk management
The Consolidated Entity's objective in managing capital is to safeguard the consolidated entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

In order to maintain or adjust its capital structure, the Consolidated Entity may adjust the level of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Consolidated Entity is monitored through the gearing ratio. This ratio is defined as net senior debt divided by total capital, where net senior debt is defined as total senior interest bearing financial assets and financial liabilities (including derivative financial instruments) less cash and cash equivalents and total capital, where total capital is defined as equity shown in the consolidated balance sheet plus net debt.

During the period and year ended 31 December 2019 and 31 December 2018, the Consolidated Entity's strategy was to maintain debt / RAB at less than 100% in order to secure access to finance at a reasonable cost.

The Consolidated Entity's Risk Management and Compliance Committee reviews the capital structure on a semi-annual basis.

The Consolidated Entity is not subject to any externally imposed capital requirements.

Note 24. Reserves

The following table shows a breakdown of the Statement of Financial Position line item 'reserves'. A description of the nature and purpose of each reserve is provided below the table.

	Consolidated	
	2019 $'000	2018 $'000
Hedging reserve - cash flow hedges	(146,787)	(51,560)
Financial equity reserve	17,918	17,918
	(128,869)	(33,642)

Hedging reserve
The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Financial equity reserve
The Financial equity reserve represents the gains and losses recognised on the discounting of intercompany loans to present values. The carrying value of the loans has been determined on the basis of the best estimate of when they will be settled, with the loans accounted for on the basis of present values with any discounting of the loan balances taken to the reserve. In the current year, no tax discounting has been applied given the company settles the taxation transactions occurring within the last 12 months via a cash settlement.

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Hedging reserve - cash flow hedges $'000	Financial equity / distribution reserve $'000	Total $'000
Balance at 1 January 2018	(15,650)	17,918	2,268
AUD interest rate swaps	(71,582)	-	(71,582)
Interest rate swaps transferred to Profit or Loss	18,214	-	18,214
Cross currency interest swaps	(72,477)	-	(72,477)
Cross currency swaps FX translation transferred to Profit or Loss	72,576	-	72,576
Cross currency interest rate swaps transferred to Profit or Loss	1,484	-	1,484
Forward foreign exchange contracts	485	-	485
Income tax relating to these items	15,390	-	15,390
Balance at 31 December 2018	(51,560)	17,918	(33,642)
AUD interest rate swaps	(156,841)	-	(156,841)
Interest rate swaps transferred to Profit or Loss	34,759	-	34,759
Cross currency interest swaps	(75,941)	-	(75,941)
Cross currency swaps FX translation transferred to Profit or Loss	63,651	-	63,651
Cross currency interest rate swaps transferred to Profit or Loss	(390)	-	(390)
Forward foreign exchange contracts	(1,277)	-	(1,277)
Income tax relating to these items	40,812	-	40,812
Balance at 31 December 2019	(146,787)	17,918	(128,869)

Note 25. Retained profits

	Consolidated 2019 $'000	Consolidated 2018 $'000
Retained profits at the beginning of the financial year	551,133	319,198
Profit after income tax expense for the year	254,608	227,624
Dividends paid	(132,827)	-
Dividends declared but not paid	(164,673)	-
Actuarial (loss) / gain on defined benefit plans, net of tax	(7,686)	4,311
Retained profits at the end of the financial year	500,555	551,133

Note 26. Non-controlling interest

	Consolidated 2019 $'000	Consolidated 2018 $'000
Reserves	1,766	1,186

Note 27. Derivative financial instruments

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current assets		
Forward foreign exchange contracts	64	255
Cross Currency swaps	87,466	31,772
	87,530	32,027
Non-current assets		
Forward foreign exchange contracts	-	45
Interest rate swap contracts	20,249	7,010
Cross Currency Swaps	258,478	262,792
	278,727	269,847
Current liabilities		
Interest rate swap contracts	(2,856)	(637)
Forward foreign exchange contracts	(1,078)	(125)
	(3,934)	(762)
Non-current liabilities		
Forward foreign currency contracts	(120)	(33)
Interest rate swap contracts	(196,238)	(63,136)
Cross currency Swaps	(2,612)	(18,780)
	(198,970)	(81,949)
	163,353	219,163

Refer to note 28 for further information on financial instruments.

Note 27. Derivative financial instruments (continued)

(i) Classification of derivatives

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to mature within 12 months after the end of the reporting period.

For hedged forecast transactions that result in the recognition of a non-financial asset, the Consolidated Entity has elected to include related hedging gains and losses in the initial measurement of the cost of the asset.

Note 28. Financial instruments

(a) Financial risk management objectives

The Consolidated Entity's activities expose it to a variety of financial risks: market risk (including foreign exchange, and interest rate), credit risk and liquidity risk. The Consolidated Entity's major exposure to interest rate risk and foreign currency risk arises from long-term borrowings. There is also translation foreign currency risk associated with transactional foreign currency exposures, such as purchases made in foreign currencies.

The Consolidated Entity's overall risk management strategy focuses on monitoring and managing these financial risks such that potential adverse effects on the Consolidated Entity's financial performance are minimised. Financial risk management is carried out by the Consolidated Entity's Treasury function under policies approved by the Board. The Consolidated Entity has written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative and non-derivative financial instruments and the investment of excess liquidity.

The Consolidated Entity uses the following type of derivative financial instruments to hedge these risk exposures:

- Interest rate swap contracts: the Consolidated Entity agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Consolidated Entity to mitigate the risk of changing interest rates on the fair value of fixed rate debt held and the cash flow exposures of floating rate debt held.
- Cross-currency swap contracts: the Consolidated Entity agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the consolidated entity to mitigate the risk of adverse movements in foreign exchange rates.
- Foreign currency forward contracts: the Consolidated Entity undertakes certain transactions denominated in foreign currencies, primarily USD, from which exposure to exchange rate fluctuations arise. Such contracts enable the Consolidated Entity to lock in the exchange rate at the future date for the payment or receipt.

Hedge accounting is a technique that enables the matching of the gains and losses on designated hedging instruments and hedged items in the same accounting period to minimise volatility in profit or loss. To the extent permitted by AASB 9 *Financial Instruments*, the Consolidated Entity formally designate and document these financial instruments as fair value and cash flow hedges for accounting purposes. In order to qualify for hedge accounting, AASB 9 requires that prospective hedge effectiveness testing meets all of the following criteria:

- an economic relationship exists between the hedged item and hedging instrument;
- the effect of credit risk does not dominate the value changes resulting from the economic relationship; and
- the hedge ratio is the same as that resulting from amounts of hedged items and hedging instruments for risk management.

Note 28. Financial instruments (continued)

(b) Derivatives

The Consolidated Entity uses derivative financial instruments for two types of hedges:

	Fair value hedges	Cash flow hedges
Objective	To convert fixed interest rate borrowings to floating interest rate borrowings.	To hedge the exposure arising from variability in future interest and foreign currency cash flows arising from borrowings that bear interest at variable rates, or are denominated in foreign currency. Cash flow hedging is also used to mitigate the foreign currency exposure arising from anticipated future transactions
Recognition date	At the date the instrument is entered into	At the date the instrument is entered into
Measurement	Measured at fair value	Measured at fair value
Changes in fair value	Changes in the fair value of the hedging instrument and changes in the fair value of the hedged item that is attributable to the hedged risk ('fair value hedge adjustment') are recognised in Profit or Loss. Ineffectiveness reflects the extent to which the fair value movements do not offset and is primarily driven by movements in credit of the hedging instrument.	Ineffectiveness is recognised in the profit or loss if the change in the fair value of the hedging instrument exceeds the change in fair value of the underlying hedged item for the hedged risk. The portion of fair value movement qualifying as effective movement is recognised in the cash flow hedge reserve in equity. All cash flow hedges are in effective hedge relationships on the basis that the critical terms of the hedging instrument and hedged item are aligned (including face values, cash flows and currency). During the year, there has been no material ineffectiveness attributable to the cash flow hedges.

Fair value hedges have an economic relationship on the basis that the critical terms of the hedging instrument and hedged item (including face value, cash flows and maturity date) are aligned. The relationship between the hedged risk and the corresponding value of the hedging derivatives results in a hedge ratio of one.

The cumulative amount of fair value hedge adjustments which are included in the carrying amount of our borrowings in the Statement of Financial Position is shown below:

	2019 $'000	2018 $'000
Fixed rate instruments		
Face value as at 31 December	3,204,100	2,855,011
Unamortised discounts/premiums	(10,553)	(7,577)
Amortised cost	3,193,547	2,847,434
Cumulative fair value hedge adjustments	64,574	(45,144)
Carrying amount	3,258,122	2,802,290

	2019 $'000	2018 $'000
Change in value of hedged item during year	455,832	511,732

For fixed rate instruments, face value represents the face value in the underlying currency converted at the spot exchange rate as at reporting date. Revaluation impacts since inception of the borrowings due to foreign exchange movements are reflected in the amortised cost balance.

(i) Fair value measurements

The Consolidated Entity measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Derivative financial instruments

Note 28. Financial instruments (continued)

Foreign currency forward contracts are measured using the discounted cash flow method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Interest rate swaps are measured using the discounted cash flow method. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period), discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Cross-currency interest rate swaps are measured using the discounted cash flow method. Future cash flows are estimated based on forward currency rates (from observable yield curves at the end of the reporting period) and contract currency rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Accounting policy for fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and applied within a valuation technique.
- Level 3 fair value measurements are those derived from inputs that are not based on observable market data (unobservable inputs) and applied within a valuation technique.

Consolidated Entity - at 31 December 2019	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Interest rate swap contracts - cash flow hedges	-	12,627	-	12,627
Forward foreign exchange contracts - cash flow hedges	-	64	-	64
Cross currency swaps - fair value hedges	-	71,669	-	71,669
Cross currency swaps - cash flow hedges	-	303,266	-	303,266
Interest rate swap contracts - fair value hedges	-	7,622	-	7,622
Total financial assets	-	395,248	-	395,248

	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial Liabilities				
Cross currency swaps - cash flow hedges	-	(15,898)	-	(15,898)
Cross currency swaps - fair value hedges	-	(15,705)	-	(15,705)
Forward foreign exchange contracts - cash flow hedges	-	(1,198)	-	(1,198)
Interest rate swap contracts - cash flow hedges	-	(199,094)	-	(199,094)
Total financial liabilities	-	(231,895)	-	(231,895)

Note 28. Financial instruments (continued)

Consolidated Entity - at 31 December 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Interest rate swap contracts - cash flow hedges	-	5,519	-	5,519
Forward foreign exchange contracts - cash flow hedges	-	300	-	300
Cross currency swaps - fair value hedges	-	10,679	-	10,679
Cross currency swaps - cash flow hedges	-	325,696	-	325,696
Interest rate swap contracts - fair value hedges	-	1,491	-	1,491
Total financial assets	-	343,685	-	343,685

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Cross currency swaps - cash flow hedges	-	(2,955)	-	(2,955)
Cross currency swaps - fair value hedges	-	(57,636)	-	(57,636)
Forward foreign exchange contracts - cash flow hedges	-	(158)	-	(158)
Interest rate swap contracts - cash flow hedges	-	(63,773)	-	(63,773)
Total financial liabilities	-	(124,522)	-	(124,522)

There were no transfers between Level 1 and 2 during the year. There were no transfers into or out of Level 3 during the year.

(ii) Fair value of financial instruments

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values. These instruments are valued using the same methodology as the level 2 instruments described in this note.

	Carrying value $'000	Fair value $'000
2019		
Foreign denominated notes	2,721,264	2,804,240
Fixed rate note	536,857	616,720
	3,258,121	3,420,960
2018		
Foreign denominated notes	2,278,521	2,308,388
Fixed rate note	531,615	564,169
	2,810,136	2,872,557

(iii) Amounts recognised in profit or loss

During the year, the following amounts were recognised in profit or loss in relation to foreign currency transactions and interest rate swaps:

	2019 $'000	2018 $'000
Amount reclassified from cash flow hedge reserve to profit or loss – amount recognised in finance expenses	(29,898)	96,866

Note 28. Financial instruments (continued)

(c) Hedging

Consolidated entity 2019	Notional $'000	Weighted average effective interest rate %	Carrying amount - Asset $'000	Carrying amount - Liability $'000	Changes in the value of hedging instrument recognised in other comprehensive income $'000	Changes in fair value used for calculating hedge ineffectiveness $'000	Weighted average Maturity date
Foreign currency risk							
Cross-currency interest rate swaps - cash flow hedges	2,365,215	3.29%	303,266	15,898	5,475	(35,373)	24/11/2026
Forward foreign exchange contracts- cash flow hedge	59,603	-	64	1,198	1,277	(1,277)	10/08/2020
Interest rate risk							
AUD - interest rate swap contracts – fair value hedges	75,000	4.00%	7,622	199,094	129,287	6,131	29/03/2028
Foreign Currency - Cross-currency interest rate swaps - fair value hedges	3,745,000	2.35%	12,627	199,094	129,287	(128,213)	15/12/2024
Foreign Currency - Cross-currency interest rate swaps - fair value hedges	2,365,215	3.29%	71,668	15,705	-	102,920	24/11/2026

2018	Notional $'000	Weighted average effective interest rate %	Carrying amount - Asset $'000	Carrying amount - Liability $'000	Changes in the value of hedging instrument recognised in other comprehensive income $'000	Changes in fair value used for calculating hedge ineffectiveness $'000	Weighted average Maturity date
Cross-currency interest rate swaps - cash flow hedges	1,986,275	3.25%	325,696	2,955	(2,592)	99,458	05/01/2026
Forward foreign exchange contracts- cash flow hedge	21,332	-	300	158	(485)	485	11/05/2019
Interest rate risk							
AUD - interest rate swap contracts – fair value hedges	75,000	4.00%	1,491	-	-	1,491	29/03/2028
AUD - interest rate swap contracts - cash flow hedges	3,775,000	2.46%	5,519	63,773	54,376	(54,859)	05/11/2023
Foreign Currency - Cross-currency interest rate swaps - fair value hedges	1,986,257	3.25%	10,679	57,636	-	(29,479)	05/01/2026

Note 28. Financial instruments (continued)

(d) Market risk

(i) Foreign exchange risk
The Consolidated Entity's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Consolidated Entity measures the market risk exposures using sensitivity analysis and cash flow forecasting. There has been no change from the prior year to the types of market risks the Consolidated Entity is exposed to or manner in which the risks are managed and measured.

Foreign exchange risk arises from recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Consolidated Entity undertakes certain transactions denominated in foreign currencies, primarily US Dollars (USD) and Hong Kong Dollars (HKD), from which exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

Consolidated Entity's exposure to foreign currency risk (prior to hedging contracts) at the reporting period, expressed in the foreign currency, was as follows:

	USD		HKD	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Borrowings	1,378,000	1,140,000	3,187,000	3,187,000

The following table details the Consolidated Entity's sensitivity to a 10% increase and decrease in the value of the Australian Dollar (AUD) against the relevant foreign currencies. The sensitivity analysis includes outstanding foreign currency denominated financial assets and liabilities (including derivatives) and adjusts their translation at period end for a 10% change in foreign exchange rates on a total portfolio basis with all other variables held constant.

	Impact on post-tax profit*		Impact on other components of equity		Total impact on equity	
	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000
AUD/USD & AUD/HKD exchange rate - increase 10%	-	-	(2,547)	(2,065)	(2,547)	(2,065)
AUD/USD & AUD/HKD exchange rate - decrease 10%	-	-	3,348	1,865	3,348	1,865

*Changes in market rates under this scenario are assumed to have a nil impact on derivative hedge ineffectiveness as the Consolidated Entity has highly effective hedges in place.

(ii) Interest Rate Risk
The Consolidated Entity is exposed to interest rate risk as it invests and borrows funds at both fixed and floating interest rates. The risks are managed by maintaining an appropriate mix between fixed and floating rate borrowings and through the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to confirm alignment with the debt and liquidity management policy and ensure that the Consolidated Entity is not exposed to excess risk from interest rate volatility.

	Average fixed interest rate		Notional principal amount		Fair value	
	2019	2018	2019	2018	2019	2018
Receive floating / pay fixed	%	%	$'000	$'000	$'000	$'000
Consolidated						
Less than 1 year	2.24%	2.18%	400,000	400,000	(2,856)	(637)
1 to 2 years	2.34%	2.24%	400,000	400,000	(9,780)	(1,898)
2 to 5 years	2.56%	2.47%	1,200,000	1,200,000	(65,839)	(21,521)
5 years+	2.23%	2.56%	1,745,000	1,775,000	(107,991)	(34,199)
			3,745,000	3,775,000	(186,466)	(58,255)

The sensitivity analysis contained in the table below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date with the stipulated change taking place at the start of the financial year and held constant for the reporting period. A sensitivity of 1% (100 basis points) has been selected as this is considered reasonable given the current level of both short and long term interest rates.

Note 28. Financial instruments (continued)

	Net profit*		Cash flow hedge reserve		Total impact on equity	
	2019	2018	2019	2018	2019	2018
Consolidated	$'000	$'000	$'000	$'000	$'000	$'000
Impact of movement in interest rates (AUD)						
1% increase in interest rates - increase/(decrease)	(2,056)	(970)	121,361	110,305	119,305	109,335
1% decrease in interest rates - (decrease)/increase	2,056	970	(128,736)	(117,642)	(126,380)	(116,672)
Impact of movement in interest rates (USD) / (HKD)						
1% increase in interest rates - increase/(decrease)	-	-	(5,343)	(4,394)	(5,343)	(4,394)
1% decrease in interest rates - (decrease)/increase	-	-	5,566	1,842	5,566	1,842

*Changes in market rates under this scenario are assumed to have a nil impact on derivative hedge effectiveness as the Consolidated Entity has highly effective hedges in place.

Profit would have been affected mainly as a result of the ineffective portion of cash flow and fair value hedge transactions and floating rate financial assets and liabilities that are not in a cash flow hedge relationship. Equity, through the cash flow hedge reserve, would have been affected mainly as a result of an increase/decrease in the fair value of interest rate swaps which qualify for cash flow hedge accounting.

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss. The Consolidated Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. The Consolidated Entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions contracted is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management and compliance committee annually.

The Consolidated Entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Consolidated Entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 12 months.

Trade receivables consist of a large number of customers with ongoing credit evaluation performed on their financial condition. Where appropriate, additional collateral credit support is obtained to mitigate the risk of loss.

The Consolidated Entity does not have significant credit risk exposure to any single counterparty. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Impaired trade receivables

The Consolidated Entity applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Consolidated Entity therefore concludes that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Note 28. Financial instruments (continued)

The expected loss rates are based on historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows for both trade receivables and contract assets:

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
31 December 2019					
Expected loss rate	0.8%	29.0%	65.3%	83.3%	2.6%
Gross carrying amount – trade receivables	40,623	115	527	3,266	44,531
Gross carrying amount - contract assets	120,497	-	-	-	120,497
Loss allowance	1,241	33	344	2,722	4,340

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
31 December 2018					
Expected loss rate	0.6%	17.1%	30.2%	95.0%	4.8%
Gross carrying amount - trade receivables	35,083	2,402	1,482	6,550	45,517
Gross carrying amount - contract assets	123,364	-	-	-	123,364
Loss allowance	1,023	410	447	6,223	8,103

Allowance for expected credit losses
The expected credit loss allowance represent expected loss rate on trade receivables and contract assets where no incurred credit losses has eventuated. Set out below is the movement in the expected credit losses allowance of trade receivables and contract assets:

	Consolidated 2019 $'000	Consolidated 2018 $'000
Opening balance	8,103	8,654
Increase in loss allowance recognised in profit or loss during the year	2,991	4,327
Receivables written off during the year as uncollectable	(1,526)	(672)
Unused amounts reversed	(5,228)	(4,206)
Closing balance	4,340	8,103

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Consolidated Entity, and a failure to make contractual payments for a period of greater than 90 days past due. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(f) Liquidity risk

The Board of Directors is ultimately responsible for liquidity risk and has adopted an appropriate liquidity risk management framework to manage the Consolidated Entity's funding and liquidity requirements. The Consolidated Entity manages liquidity risk by:

- maintaining adequate reserves, banking and reserve borrowing facilities;
- continuously monitoring forecast and actual cash flows; and
- matching the maturity profiles of financial assets and liabilities.

Note 28. Financial instruments (continued)

Liquidity and interest rate tables

The following table details the Consolidated Entity's remaining contractual maturity for its derivative and non-derivative financial liabilities. The table is drawn up based upon the future undiscounted principal and interest cash flows.

Consolidated 2019	Weighted average effective interest rate %	0 to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
Financial liabilities (derivative and non-derivative)							
Cross currency swap-Receive	2.8%	(2,533)	(2,533)	(7,600)	(99,334)	(112,000)	(95,368)
Cross currency swap-Pay AUD	-	1,923	1,969	6,772	100,545	111,209	97,980
Borrowings[1]	2.6%	432,757	898,003	1,420,141	2,964,143	5,715,044	4,916,541
Forward contracts	-	947	20	32	-	999	1,198
Trade and other payables	-	593,357	-	-	-	593,357	593,357
Interest Rate Swaps	2.5%	53,130	47,197	86,367	28,357	215,051	199,094
Trust fund and deposit	-	1,104	-	-	863	1,967	1,967
Lease liabilities	-	8,852	9,091	28,576	60,935	107,454	85,089
Total financial liabilities		1,089,537	953,747	1,534,288	3,055,509	6,633,081	5,799,858

[1] The amounts included as borrowings in the maturity tables are the contractual undiscounted cash flows, including principal and interest payments calculated based on contractual maturities.

Consolidated 2018	Weighted average effective interest rate %	0 to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
Financial liabilities (derivative and non-derivative)							
Cross currency swap-Receive	2.8%	(18,411)	(18,411)	(55,233)	(728,565)	(820,620)	(664,985)
Cross currency swap-Pay AUD	-	23,336	22,629	72,927	723,931	842,823	683,766
Borrowings[1]	3.1%	482,418	394,892	2,315,741	2,691,298	5,812,349	4,707,462
Forward contracts	-	165	53	-	-	218	158
Trade and other payables	-	523,408	375	-	-	523,783	523,783
Interest Rate Swaps	2.5%	18,863	20,108	33,501	(3,097)	69,375	63,773
Trust fund and deposit	-	933	-	-	1,117	2,050	2,050
Total financial liabilities		1,030,712	419,646	2,366,936	2,684,684	6,429,978	5,316,007

[1] The amounts included as borrowings in the maturity tables are the contractual undiscounted cash flows, including principal and interest payments calculated based on contractual maturities.

Note 28. Financial instruments (continued)

(g) Offsetting financial assets and financial liabilities

The Consolidated Entity does not have financial instruments that meet the presentation offset requirements of AASB 132 *Financial Instruments: Presentation* and as such each individual financial instrument is presented gross in the Financial Statements. However, the Consolidated Entity has for credit management purposes, Master Netting arrangements where offset is permitted as a result of certain credit events. Application of these credit arrangements for the Consolidated Entity at the financial reporting date would result in the following offsets as detailed below:

Consolidated - 2019	Gross amount $'000	Financial instruments not set off $'000	Net amount $'000
Assets			
Total derivative assets	366,257	(182,151)	184,106
Liabilities			
Total derivative liabilities	(202,904)	182,151	(20,753)

Consolidated - 2018	Gross amount $'000	Financial instruments not set off $'000	Net amount $'000
Assets			
Total derivative assets	301,874	(78,262)	223,612
Liabilities			
Total derivative liabilities	(82,711)	78,262	(4,449)

Note 29. Key management personnel disclosures

Key management personnel comprises General Managers, Chief Financial Officer and Chief Executive Officer of the Consolidated Entity. The compensation of the key management personnel of the Consolidated Entity is set out below:

	Consolidated 2019 $	Consolidated 2018 $
Cash salary and fees	4,668,266	4,483,925
Cash bonus	3,641,161	2,545,589
Non-monetary benefits	179,026	164,887
Superannuation	228,934	225,093
	8,717,387	7,419,494

The remuneration of the General Managers, Chief Financial Officer and Chief Executive Officer is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

Note 30. Contingencies

The Consolidated Entity does not have any contingent assets or liabilities at 31 December 2018 (2017: nil).

Note 31. Commitments

(a) Capital expenditure commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	Consolidated 2019 $'000	Consolidated 2018 $'000
Property, plant and equipment payable:		
Within one year	208,672	234,474
One to five years	18,206	29,960
	226,878	264,434

Expenditure commitments

	Consolidated 2019 $'000	Consolidated 2018 $'000
Expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Within one year	158,764	89,392

(b) Operating lease commitments

Operating leases relate primarily to property leases with lease terms between 3 and 50 years where the Consolidated Entity does not have an option to purchase properties at the expiry of the lease period.

From 1 January 2019, the Consolidated Entity has recognised right-of-use assets for these leases, except for short-term and low-value leases. See note 17 for further information.

	Consolidated 2019 $'000	Consolidated 2018 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	-	8,773
One to five years	-	36,739
More than five years	-	71,282
	-	116,794

Note 32. Related party transactions

(a) Shareholders
51% of the shares of Victoria Power Networks (Finance) Pty Ltd's immediate parent, VPN, are held by Hong Kong listed groups, Cheung Kong Infrastructure and Power Assets Holdings. The remaining 49% of the shares are held by Spark Infrastructure, an Australian listed entity.

(b) Parent entity
The parent entity of the Consolidated Entity is Victoria Power Networks (Finance) Pty Ltd.

(c) Directors' loans
There were no loans in existence at balance date made, guaranteed or secured to directors of the company, director related entities, their spouses, relatives, or relatives of spouses.

(d) Subsidiaries
Interests in subsidiaries are set out in note 36 of the financial statements.

(e) Directors' equity holdings
There were no director equity holdings in existence at the balance date.

(f) Other transactions with directors or entities related to them
No director-related entity has declared an interest in a contract, or proposed contract, during the year ended 31 December 2019 with the company or any entities in the Consolidated Entity, except in instances where terms are no more favourable than those expected under normal commercial arrangements, as is the case with the normal supply of electricity.

The following table summarises trading transactions with related parties that are not members of the Consolidated Entity:

	Consolidated	
	2019 $'000	2018 $'000
Sales of goods and services:		
SA Power Networks	17,547	19,284
Enerven Energy Infrastructure Pty Ltd (subsidiary of SA Power Networks)	15,693	-
Wellington Electricity	344	63
International Infrastructure Services Company - NZ Branch	2,832	2,262
Transmission Operations Australia Pty Ltd	12,359	26,031
International Infrastructure Services Company - Australian Branch	250	233
Australian Energy Operations Pty Ltd	7	2,080
Transmission Operations Australia 2 Pty Ltd	524	554
United Energy Distribution Holdings Pty Ltd	5,958	-
UE & Multinet Pty Ltd	7,700	6,831
CK William Australia Holdings Pty Ltd	1,108	1,083
ENEA Australia Pty Ltd	83	352
Bomen Solar Farm Pty Ltd (owned by Spark Infrastructure)	82,428	-
Payment for goods and services:		
SA Power Networks	686	681
Transmission Operations Australia	-	6
International Infrastructure Services Company - Australian Branch	40	53
United Energy Distribution Holdings Pty Ltd	4,751	-

Note 32. Related party transactions (continued)

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2019 $'000	2018 $'000
Amounts owed by related parties (excluding GST):		
SA Power Networks	1,551	2,242
Enerven Energy Infrastructure Pty Ltd (subsidiary of SA Power Networks)	4,212	-
Wellington Electricity	180	-
Transmission Operations Australia Pty Ltd	42	3,256
Transmission Operations Australia 2 Pty Ltd	-	47
International Infrastructure Services Company - NZ Branch	759	188
ENEA Australia Pty Ltd	83	-
International Infrastructure Services Company - Australian Branch	22	21
United Energy Distribution Holdings Pty Ltd	1,892	-
UE & Multinet Pty Ltd	1,183	642
CK William Australia Holdings Pty Ltd	83	83
Amounts owed to related parties (excluding GST):		
SA Power Networks	-	49
International Infrastructure Services Company - Australian Branch	-	5
United Energy Distribution Holdings Pty Ltd	4,751	-

No provisions for doubtful debts have been raised against related party balances.

Note 33. Remuneration of auditors

Deloitte Touche Tohmatsu

	Consolidated	
	2019 $	2018 $
Audit services		
Audit of the financial statements	738,500	630,400
Other audit services	36,750	65,000
	775,250	695,400
Other services		
Audit of regulatory returns	582,400	575,300
	1,357,650	1,270,700
Taxation and advisory services		
Tax advisory and compliance services	100,003	85,750
Advisory services		
Advisory and consultancy services	141,721	7,867
Total remuneration for Deloitte Touche Tohmatsu	1,599,374	1,364,317

Note 34. Reconciliation of profit after income tax to net cash from operating activities

(a) Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2019 $'000	2018 $'000
Profit after income tax expense for the year	255,700	228,396
Adjustments for:		
Depreciation and amortisation	316,441	325,092
Gain on sale of non-current assets	(5,193)	(157)
Non-cash interest revenue	(66,336)	(246,098)
Non-cash interest expense	70,769	262,546
Superannuation adjustment	5,568	6,277
Amortised finance charges	3,277	3,604
Hedging and foreign exchange (gain) / loss	(393)	1,479
Gain on investment in associate	(51)	(298)
Gain on revaluation of contingent consideration	-	4
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1,090	(8,668)
Decrease/(increase) in inventories	(1,386)	(9,099)
Decrease/(increase) in other assets	(32,669)	3,542
Increase/(decrease) in trade and other payables	(174,663)	(196,468)
Increase/(decrease) in provisions	7,342	11
(Decrease)/increase in deferred income	24,832	(9,833)
Movement in taxation balances	108,498	97,552
Net cash from operating activities	512,826	457,882

Note 34. Reconciliation of profit after income tax to net cash from operating activities (continued)

(b) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	2019 $'000	2018 $'000
Total facilities		
Bank overdrafts	3,000	3,000
Working capital facilities	75,000	75,000
Bank loans	1,098,420	1,100,000
Medium Term Notes	930,000	1,080,000
Foreign denominated notes	2,721,264	2,279,867
Fixed Rate Note	536,857	528,978
	5,364,541	5,066,845
Used at balance date		
Bank loans	728,420	830,000
Medium Term Notes	930,000	1,080,000
Foreign denominated notes	2,721,264	2,279,867
Fixed Rate Note	536,857	528,978
	4,916,541	4,718,845
Unused at balance date		
Bank overdrafts	3,000	3,000
Working capital facilities	75,000	75,000
Bank loans	370,000	270,000
	448,000	348,000

Note 35. Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	Consolidated	
	2019	2018
Net debt	$'000	$'000
Cash and cash equivalents	61,603	57,661
Borrowings - repayable within one year	(993,792)	(1,081,181)
Borrowings - repayable after one year	(3,922,749)	(3,202,206)
Net debt	(4,854,938)	(4,225,726)

Consolidated	Cash/bank overdraft $'000	Borrowings due within 1 year $'000	Borrowings due after 1 year $'000	Total $'000
Balance at 1 January 2018	29,990	(1,230,083)	(3,203,511)	(4,403,604)
Cash flows	27,671	1,092,803	(1,294,816)	(174,342)
Foreign exchange adjustments	-	118,669	(186,921)	(68,252)
Other non-cash movements	-	(1,062,570)	1,483,042	420,472
Balance at 31 December 2018	57,661	(1,081,181)	(3,202,206)	(4,225,726)
Cash flows	3,942	1,549,491	(1,676,014)	(122,581)
Foreign exchange adjustments	-	(265,373)	185,535	(79,838)
Other non-cash movements	-	(1,196,729)	769,936	(426,793)
Balance at 31 December 2019	61,603	(993,792)	(3,922,749)	(4,854,938)

Note 36. Interests in subsidiaries

(a) Subsidiaries

Details of the Consolidated Entity's subsidiaries at 31 December 2019 are set out below:

Name	Principal place of business / country of incorporation	Principal activities	Ownership interest held by the group 2019 %	Ownership interest held by the group 2018 %
CHED Services Pty Ltd	Australia	Back office services	100.0	100.0
Powercor Network Services Pty Ltd	Australia	Construction & Maintenance	100.0	100.0
Powercor Australia Ltd	Australia	Electricity Distribution	100.0	100.0
CitiPower Pty Ltd	Australia	Trustee	100.0	100.0
The CitiPower Trust	Australia	Electricity Distribution	100.0	100.0
Energy Solutions Pty Ltd	Australia	Construction & Maintenance	100.0	100.0
NG Group Holdings Pty Ltd	Australia	Holding company	50.0[1]	50.0[1]
NG Energy Pty Ltd	Australia	Solar installations	50.0[1]	50.0[1]
NG Energy (SA) Pty Ltd [2]	Australia	Solar installations	50.0[1]	50.0[1]
Next Generation Electrical Group Pty Ltd	Australia	Electricity services	50.0[1]	50.0[1]
Next Generation Learning Pty Ltd	Australia	Dormant	50.0[1]	50.0[1]

[1] The directors have concluded that the Consolidated Entity controls these entities even though it holds less than 51% of the voting rights of this subsidiary. This is because the Consolidated Entity is the largest shareholder with a 50% equity interest while the remaining shares are held by two investors.

[2] NG Maintenance Pty Ltd was renamed to NG Energy (SA) Pty Ltd during 2019.

All wholly owned entities are members of the Victoria Power Networks tax-consolidated group, of which Victoria Power Networks Pty Ltd is the head entity.

Significant restrictions
There are no significant restrictions applied to members of the Consolidated Entity.

Subsidiaries accounting policies

Subsidiaries are all entities (including structured entities) over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Consolidated Entity

Intercompany transactions, balances and unrealised gains on transactions between Consolidated Entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Note 37. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2019	**2018**
	$'000	**$'000**
Profit after income tax	304,846	148,550
Total comprehensive income	304,846	148,550

Statement of financial position

	Parent	
	2019	**2018**
	$'000	**$'000**
Total current assets	263,235	48,320
Total non-current assets	5,888,752	5,879,827
Total assets	6,151,987	5,928,147
Total current liabilities	722,365	802,549
Total non-current liabilities	4,206,423	3,815,411
Total liabilities	4,928,788	4,617,960
Equity		
Issued capital	1,639,196	1,639,196
Hedging reserve - cash flow hedges	(130,594)	(36,260)
Financial equity reserve	(564,105)	(564,105)
Retained profits	278,702	271,356
Total equity	1,223,199	1,310,187

Contingent liabilities
The parent entity did not have any contingent liabilities as at 31 December 2019 or 31 December 2018.

Determining the parent entity financial information

(i) Net current asset deficiency
As at 31 December 2019, the company's current liabilities exceed its current assets by $459,130 thousand (2018: $754,229 thousand).

Notwithstanding the working capital deficiency, the Directors believe that the going concern assumption is appropriate and that the company will be able to pay its debts as and when they fall due by instructing subsidiaries to distribute funds.

In the application of A-IFRS the Directors are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. 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. 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Note 38. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted
The Consolidated Entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Consolidated Entity.

The following Accounting Standards and Interpretations are most relevant to the Consolidated Entity:

AASB 16 Leases
The Consolidated Entity has adopted AASB 16 *Leases* from 1 January 2019. The standard replaces AASB 117 *Leases* and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Interpretation 23 Uncertainty over Income Tax Treatments
The interpretation is effective from 1 January 2019 and explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty;
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored;
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment;
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method best predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

Basis of preparation
The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for the assets.

The Consolidated Entity is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Instrument, amounts in the financial statements, except where indicated, have been rounded off to the nearest thousand dollars.

Net current asset deficiency
As at 31 December 2019, the Consolidated Entity's current liabilities exceed its current assets by $1,323,521 thousand (2018: $1,364,264 thousand).

Notwithstanding the working capital deficiency, the directors believe that the going concern assumption is appropriate and that the Consolidated Entity will be able to pay its debts as and when they fall due given:

- The Consolidated Entity has access to $448,000 thousand in unused finance facilities as at 31 December 2019;
- The Consolidated Entity has forecasted to generate operating cash flows and profits in 2020;
- Included in current liabilities are $728,420 thousand revolving debt facility not expected to be repaid in 2020 and $76,533 thousand employee entitlement provisions not expected to be called in 2020;
- The Consolidated Entity has a long history of refinancing expiring debt facilities.

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Note 38. Significant accounting policies (continued)

Parent entity information
In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 37.

Rounding of amounts
The company is of a kind referred to in *Corporations Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Victoria Power Networks (Finance) Pty Ltd as at 31 December 2019 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Consolidated Entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Consolidated Entity. Losses incurred by the Consolidated Entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Consolidated Entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Consolidated Entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Current and non-current classification
Assets and liabilities are presented in the Statement of Financial Position based on current and non-current classification.

An asset is classified as current when:

- it is either expected to be realised or intended to be sold or consumed in the Consolidated Entity's normal operating cycle;
- it is held primarily for the purpose of trading;
- it is expected to be realised within 12 months after the reporting period; or
- the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- it is either expected to be settled in the Consolidated Entity's normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Note 38. Significant accounting policies (continued)

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Investments

Investments include non-derivative financial assets with fixed or determinable payments and fixed maturities where the Consolidated Entity has the positive intention and ability to hold the financial asset to maturity. This category excludes financial assets that are held for an undefined period. Investments are carried at amortised cost using the effective interest rate method adjusted for any principal repayments. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Foreign currency transactions

All foreign currency transactions during the financial period are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated using the exchange rate at that date.

Exchange rate differences are brought to account in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise except that:

(i) exchange differences which related to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; and

(ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer Note 28).

Goods and Services Tax (GST) and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Note 39. Events after the reporting period

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

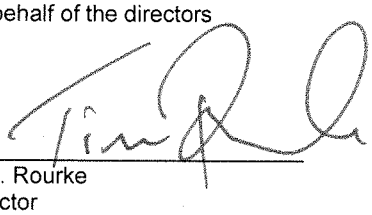
Victoria Power Networks (Finance) Pty Ltd
Directors' declaration
31 December 2019

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 38 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



T. H. Rourke
Director

3 March 2020

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Independent Auditor's Report to the members of Victoria Power Networks (Finance) Pty Ltd

Opinion

We have audited the financial report of Victoria Power Networks (Finance) Pty Ltd (the "Company") and its subsidiaries (the "Group") which comprises the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company and Group's financial position as at 31 December 2019 and of their financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company**,** would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The Directors are responsible for the other information. The other information comprises the Directors Report included in the Group's annual report for the year ended 31 December 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 we do not express any form of assurance conclusion thereon.

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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, 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 of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and 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 has 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

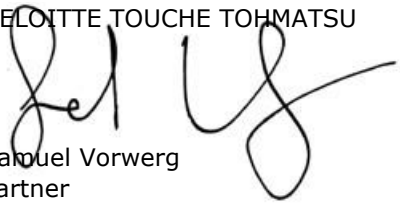
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Deloitte.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



Samuel Vorwerg
Partner
Chartered Accountants
Melbourne, 3 March 2020

Victoria Power Networks (Finance) Pty Ltd

ABN 68 101 392 161

Financial Statements
for the year ended 31 December 2018

Victoria Power Networks (Finance) Pty Ltd
Directors' report
31 December 2018

Directors' Report

The directors of Victoria Power Networks (Finance) Pty Ltd ('VPNF' or the 'company') submit herewith their report on the company and its subsidiaries (the 'Consolidated Entity') at the end of, or during, the year ended 31 December 2018.

Directors
The following persons were directors of Victoria Power Networks (Finance) Pty Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

P. P. Tulloch
H. L. Kam
C. T. Wan
A. J. Hunter
A. M. McDonald
R. F. Francis
K. Turner
L. S. Chan
N. K. Schiffer
T. H. Rourke

Principal activities
Victoria Power Networks (Finance) holds the investments in Powercor Australia Ltd, the CitiPower Group, Powercor Network Services Pty Ltd, CHED Services Pty Ltd, Energy Solutions Pty Ltd. The principal activities of the Consolidated Entity during the year were the management and operation of the electricity distribution and sub-transmission networks. The primary activity of the distribution businesses is the receipt of electricity from Victoria's high voltage transmission system and the distribution of electricity to customers in the Powercor and CitiPower distribution service areas. Almost all customers within both the Powercor and CitiPower distribution service areas are connected to the relevant distribution network, regardless of which retailer supplies the electricity.

Dividends
No dividends were paid, recommended or declared out of retained profit as 31 December 2018. During the current financial year, dividend paid out of retained profits as at 31 December 2017 amounted to $153,684 thousand. (2017: $468,684 thousand were declared and $315,000 thousand paid)

Review of operations
The profit for the Consolidated Entity after providing for income tax amounted to $228,396 thousand (31 December 2017: $225,089 thousand)

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the Consolidated Entity during the financial year.

Matters subsequent to the end of the financial year
Other than as disclosed in Note 24, no other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Likely developments and expected results of operations
No significant changes to the operations of the Company are foreseen.

Environmental regulation
The company is subject to all environmental legislation as per the *Environmental Protection Act*. During the 12 months ended 31 December 2018 the Company adhered to all environmental regulation set under the law of the Commonwealth, the State and any other environmental regulator.

Indemnity and insurance of officers
During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor
The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Victoria Power Networks (Finance) Pty Ltd
Directors' report
31 December 2018

Proceedings on behalf of the company
No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Rounding of amounts
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors,

T. H. Rourke
Director

4 March 2019

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Victoria Power Networks (Finance) Pty Ltd
40 Market Street
Melbourne VIC 3000

4 March 2019

Dear Board Members

Auditor's Independence Declaration to Victoria Power Networks (Finance) Pty Ltd

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Victoria Power Networks (Finance) Pty Ltd.

As lead audit partner for the audit of the financial statements of Victoria Power Networks (Finance) Pty Ltd for the financial year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU
DELOITTE TOUCHE TOHMATSU

Samuel Vorwerg
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Victoria Power Networks (Finance) Pty Ltd
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General information

The financial statements cover Victoria Power Networks (Finance) Pty Ltd as a Consolidated Entity consisting of Victoria Power Networks (Finance) Pty Ltd and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Victoria Power Networks (Finance) Pty Ltd's functional and presentation currency.

Victoria Power Networks (Finance) Pty Ltd is a proprietary company (the 'Company'), incorporated and operating in Australia. The Company and its subsidiaries listed in Note 40 are referred to as the 'Consolidated Entity'.

Registered office and principal place of business

Level 9
40 Market Street
MELBOURNE VIC 3000

The financial statements were authorised for issue, in accordance with a resolution of directors, on 4 March 2019. The directors have the power to amend and reissue the financial statements.

Victoria Power Networks (Finance) Pty Ltd
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2018

	Note	Consolidated 2018 $'000	Consolidated 2017 $'000
Revenue	1	1,823,420	1,544,617
Other (losses) / gains	2	(1,024)	6,034
Expenses			
Expenses from ordinary activities	3	(1,069,009)	(1,035,570)
Finance expenses	4	(426,949)	(194,247)
Profit before income tax expense		326,438	320,834
Income tax expense	5	(98,042)	(95,745)
Profit after income tax expense for the year		228,396	225,089
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains on defined benefits plans		6,157	15,050
Income tax relating to these items		(1,847)	(4,515)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges - interest rate risk		(51,784)	(27,584)
Cash flow hedges - foreign currency risk		485	(13,782)
Income tax relating to these items		15,390	12,410
Other comprehensive income for the year, net of tax		(31,599)	(18,421)
Total comprehensive income for the year		196,797	206,668
Profit for the year is attributable to:			
Non-controlling interest		772	453
Owners of Victoria Power Networks (Finance) Pty Ltd	29	227,624	224,636
		228,396	225,089
Total comprehensive income for the year is attributable to:			
Non-controlling interest		772	453
Owners of Victoria Power Networks (Finance) Pty Ltd		196,025	206,215
		196,797	206,668

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

Victoria Power Networks (Finance) Pty Ltd
Statement of financial position
As at 31 December 2018

	Note	Consolidated 2018 $'000	Consolidated 2017 $'000
Assets			
Current assets			
Cash and cash equivalents	6	57,661	29,990
Trade and other receivables	7	160,778	152,110
Inventories	8	45,679	36,580
Derivative financial instruments	31	32,027	119,030
Other financial assets	9	625	375
Other	10	21,250	24,792
Total current assets		318,020	362,877
Non-current assets			
Investments in associates	11	569	368
Derivative financial instruments	31	269,847	180,844
Property, plant and equipment	12	6,892,549	6,713,995
Intangibles	13	825,315	832,800
Retirement benefit assets	14	26,877	26,997
Other financial assets	15	375	750
Total non-current assets		8,015,532	7,755,754
Total assets		8,333,552	8,118,631
Liabilities			
Current liabilities			
Trade and other payables	16	495,365	686,096
Current tax liabilities		617	448
Contract liabilities	17	9,911	19,617
Borrowings	18	1,081,181	1,230,083
Derivative financial instruments	31	762	1,184
Provisions	19	94,073	93,200
Other financial liabilities - Contingent consideration	20	375	375
Total current liabilities		1,682,284	2,031,003
Non-current liabilities			
Trade and other payables	21	42,916	39,104
Contract liabilities	22	3,079	3,206
Borrowings	23	3,626,282	3,203,511
Derivative financial instruments	31	81,949	94,996
Deferred tax liabilities	24	720,803	766,243
Provisions	25	18,366	19,228
Other financial liabilities - Contingent consideration	26	-	133
Total non-current liabilities		4,493,395	4,126,421
Total liabilities		6,175,679	6,157,424
Net assets		2,157,873	1,961,207
Equity			
Issued capital	27	1,639,196	1,639,196
Reserves	28	(33,642)	2,268
Retained profits	29	551,133	319,198
Equity attributable to the owners of Victoria Power Networks (Finance) Pty Ltd		2,156,687	1,960,662
Non-controlling interest	30	1,186	545
Total equity		2,157,873	1,961,207

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

Victoria Power Networks (Finance) Pty Ltd
Statement of changes in equity
For the year ended 31 December 2018

Consolidated	Issued capital $'000	Financial equity / distribution reserve $'000	Hedging Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 January 2017	1,639,196	17,918	13,306	552,711	92	2,223,223
Profit after income tax expense for the year	-	-	-	224,636	453	225,089
Other comprehensive income for the year, net of tax	-	-	(28,956)	10,535	-	(18,421)
Total comprehensive income for the year	-	-	(28,956)	235,171	453	206,668
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	-	(468,684)	-	(468,684)
Balance at 31 December 2017	1,639,196	17,918	(15,650)	319,198	545	1,961,207

Consolidated	Issued capital $'000	Financial equity / distribution reserve $'000	Reserves $'000	Retained profits $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 January 2018	1,639,196	17,918	(15,650)	319,198	545	1,961,207
Profit after income tax expense for the year	-	-	-	227,624	772	228,396
Other comprehensive income for the year, net of tax	-	-	(35,910)	4,311	-	(31,599)
Total comprehensive income for the year	-	-	(35,910)	231,935	772	196,797
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	-	-	(131)	(131)
Balance at 31 December 2018	1,639,196	17,918	(51,560)	551,133	1,186	2,157,873

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

Victoria Power Networks (Finance) Pty Ltd
Statement of cash flows
For the year ended 31 December 2018

	Note	Consolidated 2018 $'000	Consolidated 2017 $'000
Cash flows from operating activities			
Receipts from customers		1,728,249	1,699,545
Payments to suppliers and employees		(1,104,451)	(847,935)
Interest paid		(166,784)	(150,633)
Income taxes paid		(490)	(168)
Interest received		775	657
Net (repayment) / receipt of trust monies		583	(471)
Net cash from operating activities	38	457,882	700,995
Cash flows from investing activities			
Payments for property, plant and equipment	12	(500,564)	(463,307)
Payments for intangibles	13	(167)	(1,198)
Proceeds from disposal of property, plant and equipment		4,726	3,774
Inflows from customer deposits		17,506	41,538
Investment in associate		97	-
Long term cash investment		(138)	-
Net cash used in investing activities		(478,540)	(419,193)
Cash flows from financing activities			
Dividends paid to shareholders		(153,684)	(315,000)
Proceeds from borrowings - external		1,302,872	794,172
Repayment of borrowings - external		(1,092,803)	(781,000)
Payment of establishment costs		(8,056)	(951)
Net cash from/(used in) financing activities		48,329	(302,779)
Net increase/(decrease) in cash and cash equivalents		27,671	(20,977)
Cash and cash equivalents at the beginning of the financial year		29,990	50,967
Cash and cash equivalents at the end of the financial year	6	57,661	29,990

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

Victoria Power Networks (Finance) Pty Ltd
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31 December 2018

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Note 1. Revenue

	Consolidated 2018 $'000	Consolidated 2017 $'000
Network revenue		
Distribution Use of System	922,507	903,321
Transmission Use of System	288,402	301,437
	1,210,909	1,204,758
Other operating revenue		
Construction and maintenance revenue	158,988	92,810
Prescribed metering	92,980	102,504
Alternative Control Services - connections and transfers	18,651	17,049
Alternative Control Services - public lighting	12,715	12,157
Alternative Control Services - other	25,400	21,870
Service level agreement revenue - related party	33,628	28,772
Interest income - external party	768	621
Other revenue from contracts with customers	13,395	13,867
Other miscellaneous revenue	9,888	14,454
Interest income - related party	246,098	35,755
	612,511	339,859
Revenue	1,823,420	1,544,617

(a) Recognising revenue from major business activities

(i) Network revenue
Timing of recognition: Network revenue represents distribution use of system and transmission use of system revenue from Electricity Retailers for the transportation and delivery of electricity through the Distribution System to their customers. Revenue is calculated on a per Energy Retailer customer basis for electricity consumed, time connected to the Distribution Network and/or demand based charges.

The use of system contract includes one performance obligation, which is to provide distribution services. This performance obligation is satisfied when the end customer receives electricity. The Company promises to provide transport and deliver electricity through the Distribution System to their customers are performance obligations that are satisfied over time as the customer is able to simultaneously consume the electricity transmitted and distributed to the customer's location.

Transaction price: Rates per quantity unit and customer tariff type are approved by the Australian Energy Regulatory ('AER') each year. The method utilised to recognise revenue for the use of system contract is an output method, which is based on actual volume of electricity distributed and actual number of customers serviced each period.

(ii) Construction and maintenance revenue
Timing of recognition: Construction revenue represents electricity related contracted services including design & construct, asset maintenance, commercial solar installations and other similar activities.

The delivery of a construction contract includes one performance obligation, which is to develop an asset for a customer. This performance obligation is satisfied over time either because the customer simultaneously benefit from the maintenance services completed and the work performed enhances the customer's assets; or the new assets are highly specific for the customer and the Company has the right to receive payment for all the services performed at the end of each reporting period.

The method utilised to recognise revenue for the construction revenue is an input method, which is based on actual labour cost and materials consumed to perform the required service during each reporting period.

Transaction price: Revenue is recognised in line with contracted amounts. Variations in contract work claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Note 1. Revenue (continued)

(iii) Prescribed metering revenue
Timing of recognition: Prescribed metering revenue comprises charges to cover the cost of maintaining, operating and replacing the meter once it has reached the end of its economic life. A per annum charge varies depending on the meter type installed. The Distribution Businesses promise to provide metering maintenance services to their customers are performance obligations that are satisfied over time as there is a stand-ready obligation to provide metering maintenance services on an on-going basis.

Transaction price: Prescribed metering revenue is based on a metering charge set by meter type as approved by the Australian Energy Regulatory ('AER') each year.

(iv) Alternative Control Services Revenue
Timing of recognition: Alternative Control Services ("ACS") revenue relates to a set of customer specific activities, primarily on behalf of Electricity Retailers, that fall under a particular area of regulation due to their monopoly or semi-monopoly nature.

ACS activities are of short duration and are recognised either when performed or if the charge is based on duration of the service, such as public lighting.

Transaction price: Rates per activity are based on either a fixed fee approved by the Australian Energy Regulator ("AER") or hourly labour rates approved by the AER and recovery of materials at cost.

(v) Service level agreement revenue
Timing of recognition: Service level agreement revenue relates to IT system, support and management services provided to entities outside of the Consolidated Entity. Revenue is recognised as services are performed.

Transaction price: Revenue is based on agreed contracted rates for services.

Revenue from contract types	Consolidated Point in time 2018 ($'000)	2017 ($'000)	Consolidated Over time 2018 ($'000)	2017 ($'000)	Consolidated Total 2018 ($'000)	Total 2017 ($'000)
Regulated - Network revenue						
Distribution Use of System	-	-	922,507	903,321	922,507	903,321
Transmission Use of System	-	-	288,402	301,437	288,402	301,437
	-	-	1,210,909	1,204,758	1,210,909	1,204,758
Semi-Regulated and Unregulated – Other operating revenue						
Construction revenue	-	-	158,988	92,810	158,988	92,810
Prescribed metering	-	-	92,980	102,504	92,980	102,504
Alternative Control Services - connections and transfers	18,651	17,049	-	-	18,651	17,049
Alternative Control Services - public lighting	-	-	12,715	12,157	12,715	12,157
Alternative Control Services - other	5,625	4,463	19,775	17,407	25,400	21,870
Service level agreement revenue - related party	-	-	33,628	28,772	33,628	28,772
Other revenue from contracts with customers	6,827	7,262	6,568	6,604	13,395	13,866
	31,103	28,774	324,654	260,254	355,757	289,028

The unsatisfied performance obligations as at 31 December 2018 relate to construction revenue of $81,652 thousand. Management expects that 100% of the transaction price allocated to the unsatisfied contracts as at 31 December 2018 will be recognised as revenue during the next reporting period.

Note 1. Revenue (continued)

(b) Critical accounting policies, estimates and assumptions

There is a certain level of estimation involved in the measurement of the Consolidated Entity's revenue, which includes:

- In relation to distribution revenue an estimation of the amount of electricity consumed but not billed at period end,
- In relation to services provided under contract an estimation of stage of completion; and
- In relation to "pass-through" type revenue an estimation of timing of cash-flows and the net present value of such cashflows.

As the basis of estimation for distribution revenue is based on actual electricity consumption and in the case of pass through revenue the actual and accrued cost incurred, the Directors do not envisage significant uncertainty risk with respect to amounts recorded in relation to applying the revenue recognition accounting policies.

Note 2. Other (losses) / gains

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Gain on disposal of property, plant and equipment	157	1,205
Gain / (loss) cross currency interest rate swap - fair value hedge (hedging instrument)	25,024	(1,525)
(Loss) / gain foreign currency bank loan - fair value hedge relationship (hedged Item)	(27,076)	7,560
Gain / (loss) cross currency interest rate swap not designated in a hedge relationship	435	(665)
Gain on foreign currency bank loan not designated as a hedged item in a hedge relationship	138	479
Research and development grant	-	2,761
Gain on investment in associate	298	219
Impairment of plant & equipment	-	(4,000)
	(1,024)	6,034

Note 3. Expenses from ordinary activities

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Personnel expense	344,528	339,487
Transmission fees	288,402	301,437
Materials expense	169,003	151,600
Capitalised expenses*	(495,516)	(448,896)
External services	387,274	344,778
Operating lease rentals	12,203	11,831
Other expenses	20,109	12,276
Depreciation and amortisation expense	325,092	302,183
Taxes, fees & charges	17,914	20,874
	1,069,009	1,035,570

* Capitalised expenses include a combination of external labour, construction and professional services, materials expense and personnel expense.

Note 4. Finance expenses

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Interest and finance expenses - external parties	164,403	156,103
Interest and finance expenses - related parties	262,546	38,144
	426,949	194,247

(a) Interest and finance expenses – related parties

Interest and finance expenses to related parties relate to unwinding of discounting on intercompany tax payable with VPN as head entity in the tax consolidated group. The increase in the non-cash interest expense in 2018 is due to a change in assumption in the timing of settling the intercompany tax balances.

There is a corresponding increase in related party payables.

Note 5. Income tax expense

The current tax expense does not include the impact of carry forward tax losses of the VPN tax consolidated group. The VPN tax consolidated group has no current tax obligations.

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Income tax expense		
Current tax expense in respect of the current year	130,101	89,872
Deferred tax - origination and reversal of temporary differences	(31,896)	5,888
Adjustments for current tax of prior periods	(163)	(15)
Aggregate income tax expense	98,042	95,745
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	326,438	320,834
Tax at the statutory tax rate of 30%	97,931	96,250
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	313	363
Non-assessable income	(39)	(828)
Effects of different taxation rates within consolidated group	-	(25)
	98,205	95,760
Adjustments for current tax of prior periods	(163)	(15)
Income tax expense	98,042	95,745

Note 5. Income tax expense (continued)

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for the current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income or accounting profit. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

(b) Critical accounting judgements, estimates and assumptions
(i) Income taxes

The Consolidated Entity applies the criteria outlined in AASB 112 with regards to the calculation and recognition of deferred tax assets. The application of the AASB 112 criteria involves the exercise of judgement regarding the calculation of accounting and tax bases for the Consolidated Entity's assets and liabilities. Furthermore, the potential reversal of temporary differences also requires the use of estimates of future profitability, availability of taxable profits on both revenue and capital account and potential future changes in accounting and tax bases.

In particular, the expectation of the availability of future taxable profits against which deferred tax assets arising in respect of revenue losses is subject to estimation and judgement.

(ii) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Consolidated Entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Note 6. Current assets - cash and cash equivalents

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Cash at bank and in hand	48,071	19,750
Deposits at call	9,590	10,240
	57,661	29,990

Cash and cash equivalents accounting policies

Cash and cash equivalents include cash on hand, cash at bank and deposits at call with financial institutions.

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest.

Note 7. Current assets - trade and other receivables

	Consolidated	
	2018 $'000	2017 $'000
Trade receivables	3,526	259
Less: Allowance for expected credit losses	(3)	(34)
	3,523	225
Other receivables	41,991	46,416
Less: Allowance for expected credit losses	(8,100)	(8,620)
	33,891	37,796
Contract assets - unbilled electricity	104,934	104,246
Contract assets - other	18,430	9,843
	123,364	114,089
	160,778	152,110

(a) Trade and other receivables accounting policies

(i) Trade receivables
Trade receivables are primarily for network fees which are received from electricity retailers. The retailer payments are governed by a Use of System Agreement which stipulates that all payments are to be made on the tenth day after monthly invoicing.

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.

(ii) Other receivables
Other receivables are predominantly from revenue for any non-electricity tariff services including customer initiated augmentation work, Alternative Control Services and external project work.

(iii) Contract assets
Contract assets - unbilled electricity is an estimate of electricity consumption unbilled and unread at the end of the reporting period.

(iv) Fair value and credit risk
Due to the short-term nature of the current receivables, their fair value is considered the same as their carrying value.

(v) Impairment and risk exposure
Trade receivables and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Consolidated Entity holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Consolidated Entity's impairment policies, the Consolidated Entity's exposure to credit risk, foreign currency risk and interest rate risk and the calculation of the loss allowance are provided in Note 32(e).

(b) Critical accounting judgments, estimates and assumptions

Allowance for expected credit losses
The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent contract performance and historical collection rates.

Note 8. Current assets - inventories

	Consolidated	
	2018	2017
	$'000	$'000
Construction, general purpose, AMI meters & maintenance stock	45,679	36,580

Inventories accounting policies

Costs are assigned to inventory on hand on the basis of weighted average costs. Inventories are valued at the lower of cost or net realisable value.

Note 9. Current assets - other financial assets

	Consolidated	
	2018	2017
	$'000	$'000
Term deposit	625	375

Note 10. Current assets - other

	Consolidated	
	2018	2017
	$'000	$'000
Prepayments	14,484	14,298
Deferred transmission fee	6,766	10,494
	21,250	24,792

Other assets accounting policies

Transmission fees deferred/provided for represent the present value of the Directors' best estimates of the future economic benefits/sacrifices that will be received/incurred for transmission costs under/over collected through current electricity tariffs charged to customers.

Note 11. Non-current assets - investments in associates

	Consolidated	
	2018	2017
	$'000	$'000
Investments in associates	569	368
Movements in shares in associates		
Carrying amount at the beginning of the financial year	368	149
Share of profits after income tax	201	219
Carrying amount at the end of the financial year	569	368

Investment in associates accounting policies

Investments in associates are recorded at cost. Investments in associates are accounted for under equity accounting and the carrying value of the investment is valued based on the share of profit in the entity and transactions with owners.

Note 12. Non-current assets - property, plant and equipment

	Consolidated 2018 $'000	Consolidated 2017 $'000
Freehold Land - at cost	145,392	142,760
Freehold buildings - at cost	215,130	206,783
Less: Accumulated depreciation	(71,270)	(55,606)
	143,860	151,177
Plant and equipment - at cost	996,343	1,149,956
Less: Accumulated depreciation	(364,593)	(520,075)
	631,750	629,881
Distribution system - at cost	8,192,154	7,806,720
Less: Accumulated depreciation	(2,220,607)	(2,016,543)
	5,971,547	5,790,177
	6,892,549	6,713,995

Consolidated	Freehold Land $'000	Freehold buildings $'000	Plant and equipment $'000	Distribution System $'000	Total $'000
Balance at 1 January 2017	142,111	129,826	647,113	5,632,717	6,551,767
Additions	829	29,295	93,812	339,371	463,307
Disposals	(180)	(1,220)	(8,082)	-	(9,482)
Disposals - accumulated depreciation	-	751	6,318	-	7,069
Impairment of assets	-	-	-	(4,000)	(4,000)
Depreciation expense	-	(7,475)	(109,280)	(177,911)	(294,666)
Balance at 31 December 2017	142,760	151,177	629,881	5,790,177	6,713,995
Additions	2,779	8,559	103,863	385,363	500,564
Disposals	(147)	(212)	(257,476)	71	(257,764)
Disposals - accumulated depreciation	-	166	254,382	(1,060)	253,488
Depreciation expense	-	(15,830)	(98,900)	(203,004)	(317,734)
Balance at 31 December 2018	145,392	143,860	631,750	5,971,547	6,892,549

As at 31 December 2018, $427,735 thousand (2017: $372,787 thousand) of capital work in progress was included in the distribution system category carrying value.

Note 12. Non-current assets - property, plant and equipment (continued)

(a) Property, plant and equipment accounting policies

Property, plant and equipment are stated as cost less accumulated depreciation and impairment (if any).

(i) Cost
The purchase method of accounting is used for all acquisition of assets. Cost is determined as the fair value of the assets given up, or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Construction work in progress is stated at cost plus attributable overheads. Cost includes all costs directly related to specific projects including materials, labour and an allocation of overhead expenses.

(ii) Depreciation
Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land.

Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. The following estimated useful lives are used in the calculation of depreciation in current and prior periods.

Buildings	40 years
Plant and equipment	3-20 years
Distribution system	15-80 years

Assets in the course of construction are not subject to depreciation until they are put into use.

(iii) Impairment
Other assets, including property, plant and equipment, 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 assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets fair value less costs of disposal and its value in use. No impairment of other assets including property, plant and equipment has been recognised during the period.

(iv) Asset sales
The net proceeds on disposal of assets are brought to account at the date when control passes to the purchaser, usually when an unconditional contract of sale is signed.

(b) Critical accounting judgements, estimates and assumptions

Estimation of useful lives of assets
The Consolidated Entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Note 13. Non-current assets - intangibles

	Consolidated 2018 $'000	Consolidated 2017 $'000
Goodwill - at cost	1,311	1,311
Intellectual property - at cost	109,311	143,240
Less: Accumulated amortisation	(65,263)	(96,010)
	44,048	47,230
Software - at cost	20,523	204,343
Less: Accumulated amortisation	(13,689)	(193,206)
	6,834	11,137
Licences	773,122	773,122
	825,315	832,800

Consolidated	Goodwill $'000	Licenses $'000	Software $'000	Intellectual Property $'000	Total $'000
Balance at 1 January 2017	1,311	773,122	14,428	50,414	839,275
Additions	-	-	1,198	-	1,198
Disposals	-	-	(329)	-	(329)
Disposals - accumulated amortisation	-	-	173	-	173
Amortisation expense	-	-	(4,333)	(3,184)	(7,517)
Balance at 31 December 2017	1,311	773,122	11,137	47,230	832,800
Additions	-	-	167	-	167
Disposals	-	-	(183,986)	(33,929)	(217,915)
Disposals - accumulated amortisation	-	-	183,692	33,929	217,621
Amortisation expense	-	-	(4,176)	(3,182)	(7,358)
Balance at 31 December 2018	1,311	773,122	6,834	44,048	825,315

During 2018, there was a write-off for fully depreciated software and intellectual property of $183,692 thousand and $33,929 thousand respectively.

(a) Intangible assets accounting policies

(i) Goodwill
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, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Note 13. Non-current assets - intangibles (continued)

(ii) Distribution licence
The distribution licence is an exclusive licence to distribute electricity within a defined geography or service territory.

The factors that played a significant role in determining that the licence has an indefinite life are as follows:
- the licence is an exclusive licence to distribute electricity within the defined service territories, or geographic regions;
- the licence is vested in perpetuity, subject to ongoing compliance with the licence conditions; and
- there is presently no available technology which is likely to replace the method of distribution of electricity.

Impairment is reviewed at each reporting period date and whenever there is an indication that the distribution licence may be impaired.

Impairment of intangible assets
Determining whether distribution licence assets are impaired require an estimation of the fair value less costs of disposal of the cash-generating units to which the licence belongs. The fair value less costs of disposal calculation required the Directors to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

(iii) Software
The value of software assets are recorded at cost. Software assets are amortised on a straight line basis over the life of the asset.

(iv) Intellectual property
Intellectual property represents distribution network assets and systems. The values of these assets are recorded at cost, based on a fair value determined by reference to independent valuations. Intellectual property is amortised on a straight line basis over the period during which the benefits are expected to arise, which is currently a maximum of twenty years. The unamortised balance of the intellectual property is reviewed each balance date and charged to the income statement to the extent that the future benefits are no longer probable.

(v) Amortisation methods and useful lives
Amortisation is provided on intellectual property and software. Amortisation is amortised on a straight line basis so as to write off the net cost over the periods benefits are expected to arise. The amortisation periods are as follows:

Intellectual Property	20 years
Software	3-10 years

Note 13. Non-current assets - intangibles (continued)

(b) Critical accounting judgements, estimates and assumptions

Determining cash generating units and impairment testing
Indefinite life intangible assets have been allocated to two cash-generating units, the Powercor and CitiPower electricity distribution networks, for the purposes of completing the annual impairment test. The balance of $773,122 thousand has been allocated between the Powercor and CitiPower cash-generating units at $608,837 thousand (2017: $608,837 thousand) and $164,285 thousand (2017: $164,285 thousand) respectively. The basis on which these cash-generating units' recoverable amounts have been determined is their fair value less costs of disposal.

A five year discounted cash flow analysis has been used to determine fair value less costs of disposal. The discount rate used in the analysis was 4.06% (2017: 4.07%)

The key assumptions on which the Directors have based their assessment of future cash-flows and the approach to determining values for each were:

Terminal value
The terminal value was based on a multiple of the Regulated Asset Base (RAB) of the CitiPower and Powercor distribution networks. The RAB multiple used is in line with current market transactions.

Regulated revenue and expenditures
Regulated revenues and expenditures for the period 2019 to 2023 are primarily based on the Australian Energy Regulator's 2016 to 2020 Electricity Distributions Price Review decision plus a forecast on the current business plan for years subsequent to the 2020 determination. Electricity distribution revenue is based on the application of a 'revenue cap' to control distribution revenues during the regulatory control period, such that distribution revenues are no longer impacted by fluctuating volumes.

Non-regulated revenue and expenditure
Non-regulated revenue and expenditure were based on Management's best estimates with reference to historic performance.

The discounted cash flow model is not particularly sensitive to any assumption, such that a reasonably possible change in any assumption would not result in an impairment of the indefinite life intangible assets.

Note 14. Non-current assets - retirement benefit assets

Defined benefit superannuation plans

Powercor Australia Limited and CitiPower Pty Ltd (entities within the Consolidated Entity) operate defined benefit superannuation plans for qualifying employees. Under the plans, the employees are entitled to retirement benefits based on their final salary at the time of retirement or resignation. No other post-retirement benefits are provided to these employees.

The defined benefit superannuation plans are funded plans. The Equipsuper Contribution and Funding Policy provides for a review of the financial position of the Plans each six months, as at 30 June and 31 December, with the Company contribution rate comprising a long term contribution rate and an adjustment to meet the financing objective of a Funding Ratio of 105%.

The Funding Ratio is the ratio of assets to accrued liabilities, being the greater of vested benefits and the present value of past membership benefits. Where the Funding Ratio is greater than 100% the primary financing objective is to achieve 105% over five years. Where the Funding Ratio is less than 100% the primary financing objective is to achieve 100% over three years and 105% over five years.

In the most recent review of the financial position as at 30 June 2018 the actuary recommended a Company contribution rate of nil. The next review of the financial position and Company contribution rate is due as at 31 December 2018, to be completed by 31 March 2019.

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years or every year if the plan pays defined benefit pensions.

The Plan's Trustee is responsible for the governance of the Plan. The Trustee has a legal obligation to act solely in the best interests of Plan beneficiaries. The Trustee has the following roles:

- Administration of the Plan and payment to the beneficiaries from Plan assets when required in accordance with the Plan rules;
- Management and investment of the Plan assets; and
- Compliance with superannuation law and other applicable regulations.

The prudential regulator, the Australian Prudential Regulation Authority ("APRA"), licences and supervises regulated superannuation plans.

The expected return on plan assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for correlations of the investment returns between asset classes. The expected long-term returns for each asset class are determined by investment specialists based on their long term forecasts for each asset class. The returns used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has been deducted from the expected return.

Statement of financial position amounts
The amounts recognised in the statement of financial position are determined as follows:

	Consolidated	
	2018	2017
	$'000	$'000
Present value of the defined benefit obligation	(279,401)	(281,186)
Fair value of defined benefit plan assets	306,278	308,183
Net asset in the statement of financial position	26,877	26,997

Fair value of Plan assets

Consolidated entity	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Asset category				
Investment funds	306,278	-	306,278	-

Note 14. Non-current assets - retirement benefit assets (continued)

Categories of plan assets
The major categories of plan assets are as follows:

	Consolidated 2018 %	Consolidated 2017 %
Cash and cash equivalents	17.0%	7.0%
Equity instruments	33.0%	50.0%
Debt instruments	21.0%	12.0%
Property	12.0%	9.0%
Other assets	17.0%	22.0%

Reconciliations

	Consolidated 2018 $'000	Consolidated 2017 $'000
Reconciliation of the present value of the defined benefit obligation, which is fully funded:		
Balance at the beginning of the year	281,186	291,398
Current service cost	7,143	7,687
Interest cost	9,684	10,838
Actuarial losses / (gains) arising from changes in financial assumptions	(8,013)	8,245
Additions through business combinations	1,312	(1,333)
Actuarial losses arising from experience	-	(177)
Benefits paid	(13,633)	(36,528)
Other	(1,210)	(1,973)
Contribution by plan participants	2,932	3,029
Balance at the end of the year	279,401	281,186
Reconciliation of the fair value of plan assets:		
Balance at the beginning of the year	308,183	310,305
Actuarial return on plan assets less interest income	(536)	21,781
Contributions by entities in the consolidated entity	-	3
Benefits paid	(13,633)	(36,528)
Interest income	10,542	11,566
Contributions from plan participants	2,932	3,029
Other	(1,210)	(1,973)
Balance at the end of the year	306,278	308,183

Note 14. Non-current assets - retirement benefit assets (continued)

Significant actuarial assumptions
The significant actuarial assumptions used (expressed as weighted averages) were as follows:

	Consolidated	
	2018	2017
	%	%
Discount rate	3.6%	3.9%
Future salary increases	3.5%	3.5%
Expected rate of pension increase	2.5%	2.5%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

			Impact on defined benefit obligation			
	Change in assumption (%)		Increase in assumption ($'000)		Decrease in assumption ($'000)	
	2018	2017	2018	2017	2018	2017
Discount rate	0.5%	0.5%	(12,650)	(13,553)	13,544	14,548
Salary rate	0.5%	0.5%	10,755	11,682	(10,256)	(11,118)

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Risk exposure

There are a number of risks to which the Plan exposes the Consolidated Entity. The more significant risks relating to the defined benefits are:

- Investment risk - The risk that investment returns will be lower than the assumed and the Consolidated Entity will need to increase contributions to offset this shortfall.
- Salary growth risk - The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk - The risk is that legislative changes could be made which increase the cost of providing the defined benefits.
- Pension risks - The risk is firstly that pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period. Secondly, that a greater proportion of eligible members will elect to take a pension benefit, which is generally more valuable than the corresponding lump sum benefit.
- Inflation risk - The risk that inflation is higher than anticipated, increasing pension payments, and thereby requiring additional employer contributions.

Defined benefit superannuation accounting policies

For defined benefit superannuation plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in full, directly in other comprehensive income, in the period in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The defined benefit (liability)/asset recognised in the Statements of Financial Position represents the present value of the defined benefit obligation adjusted for unrecognised past service cost, net of the fair value of plan assets.

Any asset resulting from this calculation is limited to the past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The Plan assets are invested by the Trustee in a pool of assets with plans providing defined benefits for other employers. The assets have a benchmark weighting to equities of 50% and therefore the plan has a significant concentration of equity market risk. However within the equity investments, the allocation both globally and across the sectors is diversified.

Note 14. Non-current assets - retirement benefit assets (continued)

Critical accounting estimates and judgements

(i) Discount Rate applied to Defined Benefits

As discussed in above, defined benefit plan obligations are discounted to present value. The discount rate is determined by reference to the market yield on high quality corporate bonds from observable yield curves.

(ii) Assumptions used in actuarial valuation

The Consolidated Entity relies on valuations performed by suitably qualified actuaries in recognising the defined benefit superannuation plan accounting. Disclosures regarding the outcomes of such valuations and the key assumptions used have been outlined above.

Note 15. Non-current assets - other financial assets

	Consolidated	
	2018 $'000	2017 $'000
Term deposit	375	750

Note 16. Current liabilities - trade and other payables

	Consolidated	
	2018 $'000	2017 $'000
Trade payables	162,041	198,476
Accrued interest - other	27,508	25,128
Goods & services tax (GST) payable	14,163	12,959
Other payables	5,922	3,853
Trust funds & deposits	933	986
Customer deposit	113,149	95,644
Payable to related party	171,542	195,023
Deferred lease incentive	107	343
Dividend payable	-	153,684
	495,365	686,096

Refer to note 32 for further information on financial instruments.

The carrying amounts of current trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

Note 16. Current liabilities - trade and other payables (continued)

Trade and other payables accounting policies

(i) Trade and other payables
These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial period which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(ii) Accrued interest
Accrued interest is the amount of interest that has accumulated on a borrowing since the last interest payment date which is still unpaid at the end of the reporting period.

(iii) Trust funds and deposits
Where customers are required to lodge security deposits for electricity connection works, the deposits will be refunded with interest over the period specified in each individual contract. All balances held in this category are included in the Statement of Financial Position.

(iv) Customer deposits
Where customers request augmentation works, deposits are received in advance of works commencing.

(v) Payable to related party
Balance represents an intercompany payable with Victoria Power Networks Pty Ltd ("VPN") in accordance with the taxation funding arrangement for the VPN tax consolidated group. The current portion of the balance represents the tax payable which will be cash settled within 12 months.

Note 17. Current liabilities - contract liabilities

	Consolidated	
	2018	2017
	$'000	$'000
Contract liabilities	9,911	19,617

Contract liabilities accounting policy
Contract liabilities represent the Consolidated Entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Consolidated Entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Consolidated Entity has transferred the goods or services to the customer.

Note 18. Current liabilities - borrowings

	Consolidated	
	2018	2017
	$'000	$'000
Bank loans	830,000	760,081
Medium term notes	150,000	-
US Senior notes	101,181	470,002
	1,081,181	1,230,083

Refer to note 32 for further information on financial instruments.

Note 18. Current liabilities - borrowings (continued)

(i) Compliance with loan covenants
Victoria Power Networks (Finance) Pty Ltd has complied with the financial covenants of its borrowing facilities during the 2018 and 2017 reporting periods.

(ii) Risk exposures
Details of the Consolidated Entity's exposure to risks arising from current and non-current borrowings are set out in note 32.

(iii) Borrowings accounting policies
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

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

Note 19. Current liabilities - provisions

	Consolidated	
	2018 $'000	2017 $'000
Employee benefits	75,892	74,236
Environmental provision	500	320
Vegetation management	5,300	2,519
Legal claims	7,965	1,840
Onerous lease	749	5,317
Other	2,360	5,539
Uninsured losses	1,307	3,429
	94,073	93,200

Amounts not expected to be settled within the next 12 months
The leave obligations cover the Consolidated Entity's liability for long service leave and annual leave.
The current provision for employee benefits includes accrued annual leave and long service leave. Long service leave covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The current portion of the provision of $75,892 thousand (2017 - $74,236 thousand) is presented as current, since the Consolidated Entity does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Consolidated Entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated	
	2018 $'000	2017 $'000
Employee benefits obligation expected to be settled after 12 months	59,510	58,250

(a) Information about individual provisions and significant estimates
Employee benefits
The provision for employee benefits relates to the Consolidated Entity's liability for long service leave and annual leave.

Environment provision
The environmental provision represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to remediate network sites which have been issued with EPA clean up notices.

Vegetation management
The provision for vegetation management represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required in order to maintain compliance with the Electricity Safety Regulations in low bushfire risk areas.

Legal claims
The provision for legal claims represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to settle legal claims.

Onerous contracts
The onerous contracts provision represents the present value of the Directors' best estimate of the future sacrifice of economic benefits to finalise construction contracts with customers where the project is forecast to be loss making.

Uninsured losses
The provision for uninsured losses represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to settle public liability and personal injury claims received which are not covered by the insurance policies of the Consolidated Entity.

Note 19. Current liabilities - provisions (continued)

(b) Accounting policies for provisions
Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(c) Critical accounting judgements, estimates and assumptions
Employee Benefits
The Consolidated Entity relies on valuations performed by suitably qualified actuaries in recognising the defined benefit superannuation plan accounting. Note 14 provides disclosures regarding the outcomes of such valuations and the key assumptions used.

Discount Rate applied to Employee Entitlements and Defined Benefits
Long term employee benefits balances and defined benefit plan obligations are discounted to present value. The discount rate is determined by reference to the market yield on high quality corporate bonds from observable yield curves.

Environment provision
The Consolidated Entity relies on valuations performed by Environmental Specialists to estimate the clean-up cost of EPA notices.

Note 20. Current liabilities - other financial liabilities - contingent consideration

	Consolidated	
	2018	2017
	$'000	$'000
Other (contingent consideration)	375	375

Contingent consideration representing the estimated fair value of the contingent consideration relating to the acquisition of NG Group Holdings Pty Ltd.

Note 21. Non-current liabilities - trade and other payables

	Consolidated	
	2018	2017
	$'000	$'000
Trust funds & deposits	1,090	507
Deferred lease incentive	14,766	14,186
Payable to related party	27,060	24,411
	42,916	39,104

Refer to note 16 for further information.

Note 22. Non-current liabilities - contract liabilities

	Consolidated	
	2018	2017
	$'000	$'000
Contract liabilities	3,079	3,206

Refer to note 17 for further information.

Note 23. Non-current liabilities - borrowings

	Consolidated	
	2018	2017
	$'000	$'000
Medium term notes	918,618	1,079,284
Fixed rate note	528,978	303,671
Foreign denominated notes	2,178,686	1,820,556
	3,626,282	3,203,511

Refer to note 32 for further information on financial instruments.

Refer to note 18 for further information on borrowings accounting policies

Note 24. Non-current liabilities - deferred tax liabilities

(i) Taxable and deductible temporary differences

	Consolidated			
2018	Opening balance $'000	Charged to income $'000	Charged to other comprehensive income $'000	Closing balance $'000
Property, plant and equipment	(611,179)	24,508	-	(586,671)
Intangible assets	(181,225)	-	-	(181,225)
Provisions	34,761	(150)	-	34,611
Accrued revenue	(3,986)	1,099	-	(2,887)
Doubtful debts and impairment losses	2,596	(165)	-	2,431
Deferred income	4,358	63	-	4,421
Prepayments	(891)	(36)	-	(927)
Defined benefit superannuation liability	(8,099)	1,883	(1,847)	(8,063)
Cash flow hedges	6,708	-	15,390	22,098
Investment in associates	(81)	(173)	-	(254)
Other	168	(67)	-	102
Discounting of intercompany loans	(9,373)	4,934	-	(4,439)
	(766,243)	31,896	13,543	(720,803)

	Consolidated			
2017	Opening balance $'000	Charged to income $'000	Charged to other comprehensive income $'000	Closing balance $'000
Property, plant and equipment	(593,788)	(17,391)	-	(611,179)
Intangible assets	(181,225)	-	-	(181,225)
Provisions	26,124	8,637	-	34,761
Accrued revenue	(4,153)	167	-	(3,986)
Doubtful debts and impairment losses	2,711	(115)	-	2,596
Deferred income	4,188	170	-	4,358
Prepayments	(786)	(105)	-	(891)
Defined benefit superannuation liability	(5,671)	2,087	(4,515)	(8,099)
Cash flow hedges	(5,702)	-	12,410	6,708
Investment in associates	(15)	(66)	-	(81)
Other	157	11	-	168
Discounting of intercompany loans	(10,090)	717	-	(9,373)
	(768,250)	(5,888)	7,895	(766,243)

Note 24. Non-current liabilities - deferred tax liabilities (continued)

(ii) Australian Taxation Office Audit

Asset dispute matters

Victoria Power Networks Pty Ltd (VPN) and its wholly owned Australian resident entities (including Victoria Power Networks (Finance) Pty Ltd are part of a tax consolidated group under Australian tax law. The Company's parent entity, VPN is the head entity in the tax consolidated group.

The Head of Agreement for the deductibility of capitalised labour costs dispute was signed by the relevant parties (including VPN) and the ATO on 27 September 2016. This agreement was subsequently converted into a Deed of Settlement and executed on 20 September 2018.

The negotiations with the ATO on the dispute on transferred assets have been exhausted. On 25 August 2017, the ATO denied VPN's objections which triggered the litigation court process. The Court hearing took place in December 2018. Subsequent to year end on 7 February 2019, the Federal Court handed down its decision on VPN's transferred assets and cash customer contributions tax matter. The court found in favour of the Commissioner of Taxation.

VPN is currently reviewing the judgement. No decision has yet been made as to whether VPN will appeal the decision. There is no immediate cash tax payable by VPN due to its existing tax losses available.

(iii) Deferred tax assets and liabilities

	Consolidated 2018 $'000	2017 $'000
Deferred tax assets comprise:		
Temporary differences	63,744	48,591
Deferred tax (liabilities) comprise:		
Temporary differences	(784,547)	(814,834)
Net deferred tax liability	(720,803)	(766,243)

Note 25. Non-current liabilities - provisions

	Consolidated 2018 $'000	2017 $'000
Employee benefits	4,821	4,518
Environmental provision	13,545	14,710
	18,366	19,228

Refer to note 19 for further information on provisions.

Note 25. Non-current liabilities - provisions (continued)

Movements in provisions
Movements in each class of provision (current and non-current) during the current financial year, other than employee benefits, are set out below:

Consolidated - 2018	Employee benefits $'000	Uninsured losses $'000	Vegetation management $'000	Legal claims $'000	Environment $'000	Onerous contracts $'000	Other $'000
Carrying amount at the start of the year	78,754	3,429	2,519	1,840	15,030	5,317	5,539
Additional provisions recognised	24,978	325	2,781	7,965	-	-	-
Reductions arising from payments/other sacrifices of future economic benefits	(24,668)	(270)	-	(1,840)	-	-	-
Reduction / Addition resulting from re-measurement or settlement without cost	1,649	(2,177)	-	-	(985)	(4,568)	(3,179)
Carrying amount at the end of the year	80,713	1,307	5,300	7,965	14,045	749	2,360

Note 26. Non-current liabilities - other financial liabilities - Contingent consideration

	Consolidated 2018 $'000	Consolidated 2017 $'000
Other (Contingent consideration)	-	133

Refer to Note 20 for further information.

Note 27. Equity - issued capital

	Consolidated			
	2018 Shares	2017 Shares	2018 $'000	2017 $'000
Ordinary shares - fully paid	500	500	1,639,196	1,639,196

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and have no special voting rights.
Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Capital risk management
The Consolidated Entity's objective in managing capital is to safeguard the Consolidated Entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

In order to maintain or adjust its capital structure, the Consolidated Entity may adjust the level of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Consolidated Entity is monitored through the gearing ratio. This ratio is defined as net senior debt divided by total capital, where net senior debt is defined as total senior interest bearing financial assets and financial liabilities (including derivative financial instruments) less cash and cash equivalents and total capital, where total capital is defined as equity shown in the consolidated balance sheet plus net debt.

During the period and year ended 31 December 2018 and 31 December 2017, the Consolidated Entity's strategy was to maintain the net debt / RAB ratio at less than 75% in order to secure access to finance at a reasonable cost.

The Consolidated Entity's risk management and compliance committee reviews the capital structure on a semi-annual basis.

The Consolidated Entity is not subject to any externally imposed capital requirements.

Note 28. Equity - reserves

The following table shows a breakdown of the Statement of Financial Position line item 'reserves'. A description of the nature and purpose of each reserve is provided below the table.

	Consolidated	
	2018 $'000	2017 $'000
Hedging reserve - cash flow hedges	(51,560)	(15,650)
Financial equity reserve	17,918	17,918
	(33,642)	2,268

Hedging reserve
The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Financial equity reserve
The Financial equity reserve represents the gains and losses recognised on the discounting of intercompany loans to present values. The carrying value of the loans has been determined on the basis of the best estimate of when they will be settled, with the loans accounted for on the basis of present values with any discounting of the loan balances taken to the reserve. In the current year, no tax discounting has been applied given the company settles the taxation transactions occurring within the last 12 months via a cash settlement.

Note 28. Equity - reserves (continued)

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Hedging reserve - cash flow hedges $'000	Financial equity / distribution reserve $'000	Total $'000
Balance at 1 January 2017	13,306	17,918	31,224
AUD interest rate swaps	(4,464)	-	(4,464)
Interest rate swaps transferred to Profit or Loss	(23,120)	-	(23,120)
Cross currency interest swaps	(186,057)	-	(186,057)
Cross currency swaps FX translation transferred to Profit or Loss	166,776	-	166,776
Cross currency interest rate swaps transferred to Profit or Loss	5,849	-	5,849
Forward foreign exchange contracts	(358)	-	(358)
Foreign exchange contracts transferred to capital expenditure	8	-	8
Income tax relating to these items	12,410	-	12,410
Balance at 31 December 2017	(15,650)	17,918	2,268
AUD interest rate swaps	(71,582)	-	(71,582)
Interest rate swaps transferred to Profit or Loss	18,214	-	18,214
Cross currency swaps FX translation transferred to Profit or Loss	99	-	99
Cross currency interest rate swaps transferred to Profit or Loss	1,484	-	1,484
Forward foreign exchange contracts	485	-	485
Income tax relating to these items	15,390	-	15,390
Balance at 31 December 2018	(51,560)	17,918	(33,642)

Note 29. Equity - retained profits

	Consolidated 2018 $'000	Consolidated 2017 $'000
Retained profits at the beginning of the financial year	319,198	552,711
Profit after income tax expense for the year	227,624	224,636
Dividends paid	-	(468,684)
Actuarial gain on defined benefit plans, net of tax	4,311	10,535
Retained profits at the end of the financial year	551,133	319,198

Note 30. Equity - non-controlling interest

	Consolidated 2018 $'000	Consolidated 2017 $'000
Reserves	1,186	545

Note 31. Derivative financial instruments

	Consolidated	
	2018 $'000	2017 $'000
Current assets		
Forward foreign exchange contracts	255	232
Cross Currency swaps	31,772	118,798
	32,027	119,030
Non-current assets		
Forward foreign exchange contracts	45	12
Interest rate swap contracts	7,010	14,042
Cross Currency Swaps	262,792	166,790
	269,847	180,844
Current liabilities		
Interest rate swap contracts	(637)	(820)
Forward foreign exchange contracts	(125)	(364)
	(762)	(1,184)
Non-current liabilities		
Forward foreign currency contracts	(33)	(223)
Interest rate swap contracts	(63,136)	(16,617)
Cross currency Swaps	(18,780)	(78,156)
	(81,949)	(94,996)
	219,163	203,694

Refer to note 32 for further information on financial instruments.

(i) Classification of derivatives

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to mature within 12 months after the end of the reporting period.

For hedged forecast transactions that result in the recognition of a non-financial asset, the Consolidated Entity has elected to include related hedging gains and losses in the initial measurement of the cost of the asset.

Note 32. Financial instruments

(a) Financial risk management objectives

The Consolidated Entity's activities expose it to a variety of financial risks: market risk (including foreign exchange, and interest rate), credit risk and liquidity risk. Our major exposure to interest rate risk and foreign currency risk arises from our long-term borrowings. We have also translation foreign currency risk associated with transactional foreign currency exposures, such as purchases made in foreign currencies.

The Consolidated Entity's overall risk management strategy focuses on monitoring and managing these financial risks such that potential adverse effects on the Consolidated Entity's financial performance are minimised. Financial risk management is carried out by the Consolidated Entity's Treasury function under policies approved by the Board of Directors. The Consolidated Entity has written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative and non-derivative financial instruments and the investment of excess liquidity.

The Consolidated Entity uses the following type of derivative financial instruments to hedge these risk exposures:

- Interest rate swap contracts: the Consolidated Entity agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Consolidated Entity to mitigate the risk of changing interest rates on the fair value of fixed rate debt held and the cash flow exposures of floating rate debt held.
- Cross-currency swap contracts: the Consolidated Entity agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the Consolidated Entity to mitigate the risk of adverse movements in foreign exchange rates.
- Foreign currency forward contracts: the Consolidated Entity undertakes certain transactions denominated in foreign currencies, primarily USD, from which exposure to exchange rate fluctuations arise. Such contracts enable the Consolidated Entity to lock in the exchange rate at the future date for the payment or receipt.

Hedge accounting is a technique that enables the matching of the gains and losses on designated hedging instruments and hedged items in the same accounting period to minimise volatility in Profit or Loss. To the extent permitted by AASB 9, we formally designate and document these financial instruments as fair value and cash flow hedges for accounting purposes. In order to qualify for hedge accounting, AASB 9 requires that prospective hedge effectiveness testing meets all of the following criteria:

- an economic relationship exists between the hedged item and hedging instrument
- the effect of credit risk does not dominate the value changes resulting from the economic relationship
- the hedge ratio is the same as that resulting from amounts of hedged items and hedging instruments for risk management.

Note 32. Financial instruments (continued)

(b) Derivatives

The Consolidated Entity uses derivative financial instruments for two types of hedges:

	Fair value hedges	Cash flow hedges
Objective	To convert fixed interest rate borrowings to floating interest rate borrowings.	To hedge the exposure arising from variability in future interest and foreign currency cash flows arising from borrowings that bear interest at variable rates, or are denominated in foreign currency. Cash flow hedging is also used to mitigate the foreign currency exposure arising from anticipated future transactions
Recognition date	At the date the instrument is entered into.	At the date the instrument is entered into.
Measurement	Measured at fair value.	Measured at fair value
Changes in fair value	Changes in the fair value of the hedging instrument and changes in the fair value of the hedged item that is attributable to the hedged risk ('fair value hedge adjustment') are recognised in Profit or Loss. Ineffectiveness reflects the extent to which the fair value movements do not offset and is primarily driven by movements in credit of the hedging instrument.	Ineffectiveness is recognised in the Profit or Loss if the change in the fair value of the hedging instrument exceeds the change in fair value of the underlying hedged item for the hedged risk. The portion of fair value movement qualifying as effective movement is recognised in the cash flow hedge reserve in equity. All cash flow hedges are in effective hedge relationships on the basis that the critical terms of the hedging instrument and hedged item are aligned (including face values, cash flows and currency). During the year, there has been no material ineffectiveness attributable to the cash flow hedges.

Fair value hedges have an economic relationship on the basis that the critical terms of the hedging instrument and hedged item (including face value, cash flows and maturity date) are aligned. The relationship between the hedged risk and the corresponding value of the hedging derivatives results in a hedge ratio of one.

The cumulative amount of fair value hedge adjustments which are included in the carrying amount of our borrowings in the Statement of Financial Position is shown below:

	Consolidated	
	2018 $'000	2017 $'000
Fixed rate instruments		
Face value as at 31 December	2,855,011	2,312,877
Unamortised discounts/premiums	(7,577)	(4,251)
Amortised cost	2,847,434	2,308,626
Cumulative fair value hedge adjustments	(45,144)	(18,068)
Carrying amount	2,802,290	2,290,558

	2018 $'000	2017 $'000
Change in value of hedged item during year	(27,076)	(7,560)

For fixed rate instruments, face value represents the face value in the underlying currency converted at the spot exchange rate as at reporting date. Revaluation impacts since inception of the borrowings due to foreign exchange movements are reflected in the amortised cost balance.

Note 32. Financial instruments (continued)

(i) Fair value measurements

The Consolidated Entity measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets and financial liabilities at fair value through profit or loss (FVTPL)
- Derivative financial instruments

Foreign currency forward contracts are measured using the discounted cash flow method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Interest rate swaps are measured using the discounted cash flow method. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period), discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Cross-currency interest rate swaps are measured using the discounted cash flow method. Future cash flows are estimated based on forward currency rates (from observable yield curves at the end of the reporting period) and contract currency rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Accounting policy for fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and applied within a valuation technique.
- Level 3 fair value measurements are those derived from inputs that are not based on observable market data (unobservable inputs) and applied within a valuation technique.

Consolidated Entity - at 31 December 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Interest rate swap contracts - cash flow hedges	-	5,519	-	5,519
Forward foreign exchange contracts - cash flow hedges	-	300	-	300
Cross currency swaps - fair value hedges	-	10,679	-	10,679
Cross currency swaps - cash flow hedges	-	325,696	-	325,696
Interest rate swap contracts - fair value hedges	-	1,491	-	1,491
Total financial assets	-	343,685	-	343,685

Note 32. Financial instruments (continued)

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Liabilities				
Cross currency swaps - cash flow hedges	-	(2,955)	-	(2,955)
Cross currency swaps - fair value hedges	-	(57,636)	-	(57,636)
Forward foreign exchange contracts - cash flow hedges	-	(158)	-	(158)
Interest rate swap contracts - cash flow hedges	-	(63,773)	-	(63,773)
Total financial liabilities	-	(124,522)	-	(124,522)

Consolidated Entity - at 31 December 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Forward foreign exchange contracts - cash flow hedges	-	244	-	244
Interest rate swap contracts - cash flow hedges	-	14,042	-	14,042
Interest rate swaps – fair value through profit and loss	-	1,628	-	1,628
Cross currency swaps - fair value hedges	-	15,201	-	15,201
Cross currency swaps - cash flow hedges	-	268,759	-	268,759
Total financial assets	-	299,874	-	299,874

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Interest rate swaps – cash flow hedges	-	17,437	-	17,437
Forward foreign exchange contracts - cash flow hedges	-	587	-	587
Contingent consideration payable	-	-	508	508
Cross Currency Swaps - cash flow hedges	-	45,476	-	45,476
Cross Currency Swaps - fair value hedges	-	32,680	-	32,680
Total financial liabilities	-	96,180	508	96,688

There were no transfers between Level 1 and 2 during the year. There were no transfers into or out of Level 3 during the year.

(ii) Fair value of financial instruments

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values. These instruments are valued using the same methodology as the level 2 instruments described in this note.

	Consolidated	
	Carrying value $'000	Fair value $'000
2018		
Foreign denominated notes	2,278,521	2,308,388
Fixed rate note	531,615	564,169
	2,810,136	2,872,557
2017		
Foreign denominated notes	2,290,558	2,343,327
Fixed rate note	303,671	322,820
	2,594,229	2,666,147

Note 32. Financial instruments (continued)

(iii) Amounts recognised in profit or loss

During the year, the following amounts were recognised in profit or loss in relation to foreign currency transactions and interest rate swaps:

	Consolidated	
	2018	2017
	$'000	$'000
Amount reclassified from cash flow hedge reserve to profit or loss – amount recognised in finance expenses	96,866	172,624

(c) Hedging

Consolidated entity 2018	Notional $'000	Weighted average effective interest rate %	Carrying amount - Asset $'000	Carrying amount - Liability $'000	Changes in the value of hedging instrument recognised in other comprehensive income $'000	Changes in fair value used for calculating hedge ineffectiveness* $'000	Weighted average Maturity date
Foreign currency risk							
Cross-currency interest rate swaps - cash flow hedges	1,986,275	3.25%	325,696	2,955	(2,592)	99,458	05/01/2026
Forward foreign exchange contracts- cash flow hedge	21,332	-	300	158	(485)	485	11/05/2019
Interest rate risk							
AUD - interest rate swap contracts - cash flow hedges	3,775,000	2.46%	5,519	63,773	54,376	(54,859)	05/11/2023
Foreign Currency - Cross-currency interest rate swaps - fair value hedges	1,986,275	3.25%	10,679	57,636	-	(29,479)	05/01/2026

Note 32. Financial instruments (continued)

(d) Market risk

(i) Foreign exchange risk
The Consolidated Entity's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Consolidated Entity measures the market risk exposures using sensitivity analysis and cash flow forecasting. There has been no change from the prior year to the types of market risks the Consolidated Entity is exposed to or manner in which the risks are managed and measured.

Foreign exchange risk arises from recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Consolidated Entity undertakes certain transactions denominated in foreign currencies, primarily US Dollars (USD) and Hong Kong Dollars (HKD), from which exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

Consolidated Entity's exposure to foreign currency risk (prior to hedging contracts) at the reporting period, expressed in the foreign currency, was as follows:

	USD		HKD	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Borrowing*	1,140,000	1,505,000	3,187,000	2,350,000

*The Consolidated Entity deems the above are material exposure. The Consolidated Entity has additional exposure to EUR and NOK that are deemed immaterial.

The following table details the Consolidated Entity's sensitivity to a 10% increase and decrease in the value of the Australian Dollar (AUD) against the relevant foreign currencies. The sensitivity analysis includes outstanding foreign currency denominated financial assets and liabilities (including derivatives) and adjusts their translation at period end for a 10% change in foreign exchange rates on a total portfolio basis with all other variables held constant.

	Impact on post-tax profit*		Impact on other components of equity		Total impact on equity	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
AUD/USD & AUD/HKD exchange rate - increase 10%	-	-	(34,302)	(20,612)	(34,302)	(20,612)
AUD/USD & AUD/HKD exchange rate - decrease 10%	-	-	44,942	32,174	44,942	32,174

*Changes in market rates under this scenario are assumed to have a nil impact on derivative hedge ineffectiveness as the Consolidated Entity has highly effective hedges in place.

Note 32. Financial instruments (continued)

(ii) Interest Rate Risk

The Consolidated Entity is exposed to interest rate risk as it invests and borrows funds at both fixed and floating interest rates. The risks are managed by maintaining an appropriate mix between fixed and floating rate borrowings and through the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to confirm alignment with the debt and liquidity management policy and ensure that the Consolidated Entity is not exposed to excess risk from interest rate volatility.

	Average fixed interest rate		Notional principal amount		Fair value	
	2018	2017	2018	2017	2018	2017
Receive floating / pay fixed	%	%	$'000	$'000	$'000	$'000
Consolidated						
Less than 1 year	2.18%	2.10%	400,000	400,000	(637)	(820)
1 to 2 years	2.24%	2.18%	400,000	400,000	(1,898)	(1,482)
2 to 5 years	2.47%	2.36%	1,200,000	1,200,000	(21,521)	(5,627)
5 years+	2.56%	2.53%	1,775,000	1,775,000	(34,199)	4,534
			3,775,000	3,775,000	(58,255)	(3,395)

The sensitivity analysis contained in the table below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date with the stipulated change taking place at the start of the financial year and held constant for the reporting period. A sensitivity of 1% (100 basis points) has been selected as this is considered reasonable given the current level of both short and long term interest rates.

	Net profit*		Cash flow hedge reserve		Total impact on equity	
	2018	2017	2018	2017	2018	2017
Consolidated	$'000	$'000	$'000	$'000	$'000	$'000
Impact of movement in interest rates (AUD)						
1% increase in interest rates - increase/(decrease)	(970)	(556)	110,305	111,117	109,335	110,561
1% decrease in interest rates - (decrease)/increase	970	556	(117,642)	(119,721)	(116,672)	(119,165)
Impact of movement in interest rates (USD) / (HKD)						
1% increase in interest rates - increase/(decrease)	-	-	(4,394)	(7,392)	(4,394)	(7,392)
1% decrease in interest rates - (decrease)/increase	-	-	1,842	6,876	1,842	6,876

*Changes in market rates under this scenario are assumed to have a nil impact on derivative hedge effectiveness as the Consolidated Entity has highly effective hedges in place.

Profit would have been affected mainly as a result of the ineffective portion of cash flow and fair value hedge transactions and floating rate financial assets and liabilities that are not in a cash flow hedge relationship. Equity, through the cash flow hedge reserve, would have been affected mainly as a result of an increase/decrease in the fair value of interest rate swaps which qualify for cash flow hedge accounting.

Note 32. Financial instruments (continued)

(e) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss. The Consolidated Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. The Consolidated Entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions contracted is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Consolidated Entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Consolidated Entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 12 months.

Trade receivables consist of a large number of customers with ongoing credit evaluation performed on their financial condition. Where appropriate, additional collateral credit support is obtained to mitigate the risk of loss.

The Consolidated Entity does not have significant credit risk exposure to any single counterparty. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Consolidated Entity's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Impaired trade receivables

The Consolidated Entity applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Consolidated Entity therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles over a period of 24 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Note 32. Financial instruments (continued)

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of AASB 9) was determined as follows for both trade receivables and contract assets:

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
31 December 2018					
Expected loss rate	0.6%	17.1%	30.2%	95.0%	4.8%
Gross carrying amount – trade receivables	35,083	2,402	1,482	6,550	45,517
Gross carrying amount - contract assets	123,364	-	-	-	123,364
Loss allowance	1,023	410	447	6,223	8,103

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
1 January 2018					
Expected loss rate	0.4%	51.7%	8.1%	98.6%	5.4%
Gross carrying amount - trade receivables	33,050	1,919	4,955	6,751	46,675
Gross carrying amount - contract assets	114,089	-	-	-	114, 089
Loss allowance	607	992	399	6,656	8,654

Allowance for expected credit losses
The expected credit loss allowance represent expected loss rate on trade receivables and contract assets where no incurred credit losses has eventuated. Set out below is the movement in the expected credit losses allowance of trade receivables and contract assets:

	Consolidated	
	2018 $'000	2017 $'000
Opening balance	8,654	9,037
Increase in loss allowance recognised in profit or loss during the year	4,327	4,189
Receivables written off during the year as uncollectable	(672)	(4,140)
Unused amounts reversed	(4,206)	(432)
Closing balance	8,103	8,654

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 90 days past due. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Note 32. Financial instruments (continued)

(f) Liquidity risk

The Board of Directors is ultimately responsible for liquidity risk and has adopted an appropriate liquidity risk management framework to manage the Consolidated Entity's funding and liquidity requirements. The Consolidated Entity manages liquidity risk by:

- maintaining adequate reserves, banking and reserve borrowing facilities;
- continuously monitoring forecast and actual cash flows; and
- matching the maturity profiles of financial assets and liabilities.

Liquidity and interest rate tables

The following table details the Consolidated Entity's remaining contractual maturity for its derivative and non-derivative financial liabilities. The table is drawn up based upon the future undiscounted principal and interest cash flows.

Consolidated 2018	Weighted average effective interest rate %	0 to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
Financial liabilities (derivative and non derivative)							
Cross currency swap-Receive USD / HKD	2.8%	(18,411)	(18,411)	(55,233)	(728,565)	(820,620)	(664,985)
Cross currency swap-Pay AUD	-	23,336	22,629	72,927	723,931	842,823	683,766
Borrowings[1]	3.1%	482,418	394,892	2,315,741	2,619,298	5,812,349	4,707,462
Forward contracts	-	165	53	-	-	218	158
Trade and other payables	-	523,408	375	-	-	523,783	523,783
Interest Rate Swaps	2.5%	18,863	20,108	33,501	(3,097)	69,375	63,773
Trust fund and deposit	-	933	-	-	1,117	2,050	2,050
Total financial liabilities		1,030,712	419,646	2,366,936	2,612,684	6,429,978	5,316,007

[1] The amounts included as borrowings in the maturity tables are the contractual undiscounted cash flows, including principal and interest payments calculated based on contractual maturities.

Consolidated 2017	Weighted average effective interest rate %	0 to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
Financial liabilities (derivative and non derivative)							
Cross currency swap-Receive USD / HKD	3.2%	(30,702)	(30,598)	(91,899)	(1,146,292)	(1,299,491)	(1,299,491)
Cross currency swap-Pay AUD	4.4%	36,157	39,611	132,907	1,254,546	1,463,221	1,377,646
Borrowings[1]	3.2%	609,356	645,451	2,011,717	1,927,747	5,194,271	4,433,595
Forward contracts	-	363	132	108	-	603	587
Trade and other payables	-	709,540	375	-	-	709,673	709,673
Interest Rate Swaps	2.4%	3,468	2,156	890	13,967	20,481	17,437
Trust fund & deposits	-	986	-	-	507	1,493	1,493
Total financial liabilities		1,329,168	657,127	2,053,723	2,050,475	6,090,251	5,240,940

[1] The amounts included as borrowings in the maturity tables are the contractual undiscounted cash flows, including principal and interest payments calculated based on contractual maturities.

Note 32. Financial instruments (continued)

(g) Offsetting financial assets and financial liabilities

The Consolidated Entity does not have financial instruments that meet the presentation offset requirements of AASB 132 "Financial Instruments: Presentation" and as such each individual financial instrument is presented gross in the Financial Statements. However, the Consolidated Entity has for credit management purposes, Master Netting arrangements where offset is permitted as a result of certain credit events. Application of these credit arrangements for the Consolidated Entity at the financial reporting date would result in the following offsets as detailed below:

Financial assets and financial liabilities are offset and the net amount is reported below where the Consolidated Entity currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The net amount shows the impact on the Consolidated Entity's statement of financial position if all set off rights were exercised.

Consolidated - 2018	Gross amount $'000	Financial instruments not set off $'000	Net amount $'000
Assets			
Forward foreign exchange contracts	300	(158)	142
Interest rate swap contracts	7,010	(4,954)	2,056
Cross currency swaps	294,564	(18,780)	275,784
Total assets	301,874	(23,892)	277,982
Liabilities			
Forward foreign exchange contracts	(158)	158	-
Interest rate swap contracts	(63,773)	4,954	(58,819)
Cross currency swaps	(18,780)	18,780	-
Total liabilities	(82,711)	23,892	(58,819)

Consolidated - 2017	Gross amount $'000	Financial instruments not set off $'000	Net amount $'000
Assets			
Forward foreign exchange contracts	244	(244)	-
Interest rate swaps contracts	14,042	(14,042)	-
Cross currency swaps	285,588	(78,156)	207,432
Total assets	299,874	(92,442)	207,432
Liabilities			
Forward foreign exchange contracts	(587)	244	(343)
Interest rate swap contracts	(17,437)	14,042	(3,395)
Cross currency swaps	(78,156)	78,156	-
Total liabilities	(96,180)	92,442	(3,738)

Note 33. Key management personnel disclosures

Key management personnel comprises General Managers, Chief Financial Officer and Chief Executive Officer of the Consolidated Entity. The compensation of the key management personnel of the Consolidated Entity is set out below:

	Consolidated	
	2018	**2017**
Cash salary and fees	4,483,925	4,447,496
Cash bonus	2,545,589	2,403,978
Non-monetary benefits	164,887	239,223
Superannuation	225,093	243,990
Retirement benefits*	-	1,221,997
	7,419,494	8,556,684

The remuneration of the General Managers, Chief Financial Officer and Chief Executive Officer is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

*Retirement benefits reflect amounts paid to Executives who have exited the business in the year.

Note 34. Contingencies

The Consolidated Entity does not have any contingent assets or liabilities at 31 December 2018 (2017: nil).

Note 35. Commitments

(a) Capital expenditure commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Property, plant and equipment payable:		
Within one year	234,474	165,003
One to five years	29,960	30,274
	264,434	195,277

Expenditure commitments

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Within one year	89,392	15,752

Note 35. Commitments (continued)

(b) Operating lease commitments

Operating leases relate primarily to property leases with lease terms between 3 and 50 years where the Consolidated Entity does not have an option to purchase properties at the expiry of the lease period

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	8,773	8,591
One to five years	36,739	35,843
More than five years	71,282	81,123
	116,794	125,557

Note 36. Related party transactions

(a) Shareholders
51% of the shares of Victoria Power Networks (Finance) Pty Ltd's immediate parent, VPN, are held by Hong Kong listed groups, Cheung Kong Infrastructure and Power Assets Holdings. The remaining 49% of the shares are held by Spark Infrastructure, an Australian listed entity.

(b) Parent entity
The parent entity of the Consolidated Entity is Victoria Power Networks Pty Ltd.

(c) Directors' loans
There were no loans in existence at balance date made, guaranteed or secured to Directors of the Company, Director related entities, their spouses, relatives, or relatives of spouses.

(d) Subsidiaries
Interests in subsidiaries are set out in note 40 of the financial statements.

(e) Directors' equity holdings
There were no Director equity holdings in existence at the balance date.

(f) Other transactions with Directors or entities related to them
No Director-related entity has declared an interest in a contract, or proposed contract, during the year ended 31 December 2018 with the Company or any entities in the Consolidated Entity, except in instances where terms are no more favourable than those expected under normal commercial arrangements, as is the case with the normal supply of electricity.

The following table summarises trading transactions with related parties that are not members of the Consolidated Entity:

	Consolidated	
	2018 $'000	2017 $'000
Sales of goods and services:		
SA Power Networks	19,284	21,283
Wellington Electricity	63	118
International Infrastructure Services Company - NZ Branch	2,262	2,423
Transmission Operations Australia Pty Ltd	26,031	473
International Infrastructure Services Company - Australian Branch	233	233
Australian Energy Operations Pty Ltd	2,080	10,483
Transmission Operations Australia 2 Pty Ltd	554	1,631
United Energy Distribution Holdings Pty Ltd	-	2,800
UE & Multinet Pty Ltd	6,831	-
CK William Australia Holdings Pty Ltd	1,083	-
ENEA Australia Pty Ltd	352	-
Payment for goods and services:		
SA Power Networks	681	779
Transmission Operations Australia	6	-
International Infrastructure Services Company - Australian Branch	53	57

Note 36. Related party transactions (continued)

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2018 $'000	2017 $'000
Amounts owed by related parties (excluding GST):		
SA Power Networks	2,242	3,935
Wellington Electricity	-	22
Transmission Operations Australia Pty Ltd	3,256	32
Transmission Operations Australia 2 Pty Ltd	47	-
International Infrastructure Services Company - NZ Branch	188	200
International Infrastructure Services Company - Australian Branch	21	20
United Energy Distribution Holdings Pty Ltd	-	2,800
UE & Multinet Pty Ltd	642	-
CK William Australia Holdings Pty Ltd	83	-
Amounts owed to related parties (excluding GST):		
SA Power Networks	49	86
Australian Energy Operations Pty Ltd	-	25
International Infrastructure Services Company - Australian Branch	5	18

No provisions for doubtful debts have been raised against related party balances.

Note 37. Remuneration of auditors

Fees for services rendered by the Company's auditor in relation to the statutory audit are borne by a related party.

The auditor of Victoria Power Networks (Finance) Pty Ltd is Deloitte Touch Tohmatsu.

Note 38. Reconciliation of profit after income tax to net cash from operating activities

(a) Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2018 $'000	2017 $'000
Profit after income tax expense for the year	228,396	225,089
Adjustments for:		
Depreciation and amortisation	325,092	302,183
Income tax expense recognised in profit or loss	98,042	95,745
Non-cash interest revenue	(246,098)	(35,755)
Non-cash interest expense	262,546	38,144
Income taxes paid	(490)	(168)
Gain on sale of non-current assets	(157)	(1,205)
Impairment write down of plant and equipment	-	4,000
Superannuation adjustment	6,277	6,959
Amortised finance charges	3,604	2,620
Hedging and foreign exchange (gain) / loss	1,479	(5,849)
Non-cash Research and Development Grant	-	(2,761)
Gain on investment in associate	(298)	(219)
Gain on revaluation of contingent consideration	4	(359)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(8,668)	(3,320)
Decrease/(increase) in inventories	(9,099)	(3,346)
Decrease/(increase) in other assets	3,542	2,329
Increase/(decrease) in trade and other payables	(196,468)	101,002
Increase/(decrease) in provisions	11	27,569
(Decrease)/increase in deferred income	(9,833)	(51,663)
Net cash from operating activities	457,882	700,995

Note 38. Reconciliation of profit after income tax to net cash from operating activities (continued)

(b) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	Consolidated	
	2018	2017
	$'000	$'000
Total facilities		
Bank overdrafts	3,000	3,000
Working capital facilities	75,000	90,000
Bank loans	1,100,000	1,050,000
Medium Term Notes	1,080,000	1,080,000
Foreign denominated notes	2,279,867	2,294,809
Fixed Rate Note	528,978	304,737
	5,066,845	4,822,546
Used at balance date		
Bank loans	830,000	762,000
Medium Term Notes	1,080,000	1,080,000
Foreign denominated notes	2,279,867	2,294,809
Fixed Rate Note	528,978	304,737
	4,718,845	4,441,546
Unused at balance date		
Bank overdrafts	3,000	3,000
Working capital facilities	75,000	90,000
Bank loans	270,000	288,000
	348,000	381,000

Note 39. Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	Consolidated	
	2018	2017
Net debt	$'000	$'000
Cash and cash equivalents	57,661	29,990
Borrowings - repayable within one year	(1,081,181)	(1,230,083)
Borrowings - repayable after one year	(2,178,686)	(3,203,511)
Net debt	(3,202,206)	(4,403,604)

Consolidated	Cash/bank overdraft $'000	Borrow. due within 1 year $'000	Borrow. due after 1 year $'000	Total $'000
Balance at 1 January 2017	50,967	(1,399,400)	(3,194,184)	(4,542,617)
Cash flows	(20,977)	781,000	(793,221)	(33,198)
Foreign exchange adjustments	-	12,037	162,793	174,830
Other non-cash movements	-	(623,720)	621,101	(2,619)
Balance at 31 December 2017	29,990	(1,230,083)	(3,203,511)	(4,403,604)
Cash flows	27,671	1,092,803	(1,294,816)	(174,342)
Foreign exchange adjustments	-	118,669	(186,921)	(68,252)
Other non-cash movements	-	(1,062,570)	1,483,042	420,472
Balance at 31 December 2018	57,661	(1,081,181)	(3,202,206)	(4,225,726)

Note 40. Interests in subsidiaries

(a) Subsidiaries

Details of the Consolidated Entity's subsidiaries at 31 December 2018 are set out below:

Name of entity	Place of business/ country of incorporation	Principal activities	Ownership interest held by the group 2018 %	2017 %
CHED Services Pty Ltd	Australia	Back office services	100.0	100.0
Powercor Network Services Pty Ltd	Australia	Construction & Maintenance	100.0	100.0
Powercor Australia Ltd	Australia	Electricity Distribution	100.0	100.0
CitiPower Pty Ltd	Australia	Trustee	100.0	100.0
The CitiPower Trust	Australia	Electricity Distribution	100.0	100.0
Energy Solutions Pty Ltd	Australia	Construction & Maintenance	100.0	100.0
NG Group Holdings Pty Ltd	Australia	Holding company	50.0[1]	50.0[1]
NG Energy Pty Ltd	Australia	Solar installations	50.0[1]	50.0[1]
NG Maintenance Pty Ltd	Australia	Electricity services	50.0[1]	50.0[1]
Next Generation Electrical Group Pty Ltd	Australia	Electricity services	50.0[1]	50.0[1]
Next Generation Learning Pty Ltd	Australia	Dormant	50.0[1]	50.0[1]
ENEA Australia Pty Ltd	Australia	Consulting	49.0	49.0

1 The directors have concluded that the Consolidated Entity controls these entities even though it holds less than 51% of the voting rights of this subsidiary. This is because the Consolidated Entity is the largest shareholder with a 50% equity interest while the remaining shares are held by two investors.

All wholly owned entities are members of the tax-consolidated group, of which Victoria Power Networks Pty Ltd is the head entity.

Significant restrictions
There are no significant restrictions applied to members of the Consolidated Entity.

Subsidiaries accounting policies

Subsidiaries are all entities (including structured entities) over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Consolidated Entity

Intercompany transactions, balances and unrealised gains on transactions between Consolidated Entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Note 41. Significant accounting policies

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

Note 41. Significant accounting policies (continued)

New or amended Accounting Standards and Interpretations adopted
The Consolidated Entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Consolidated Entity.

The following Accounting Standards and Interpretations are most relevant to the Consolidated Entity:

AASB 15 Revenue from Contracts with Customers
The Consolidated Entity has adopted AASB 15 *Revenue from Contracts with Customers* from 1 January 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in Note 1. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's Statement of Financial Position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period. The Consolidated Entity applied the AASB 15 simplified transition approach and the application of this new standard did not have a material impact on recognition of revenue.

AASB 9 Financial Instruments (2014)
The Consolidated Entity has adopted AASB 9 (2014) from 1 January 2018 which introduces additional requirements in addition to the early adopted AASB 9 (2010) including a new expected credit loss model. The Consolidated Entity applied the AASB 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The application of this new standard did not have a material impact on recognition of impairment losses.

Basis of preparation
The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for the assets.

The Consolidated Entity is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the financial statements, except where indicated, have been rounded off to the nearest thousand dollars.

Net current asset deficiency
As at 31 December 2018, the Consolidated Entity's current liabilities exceed its current assets by $1,364,264 thousand (2017: $1,668,126 thousand).
Notwithstanding the working capital deficiency, the Directors believe that the going concern assumption is appropriate and that the Consolidated Entity will be able to pay its debts as and when they fall due given:

- The Consolidated Entity has access to $348,000 thousand in unused finance facilities as at 31 December 2018;
- The Consolidated Entity has forecasted to generate operating cash flows and profits in 2019;
- Included in current liabilities are $830,000 thousand revolving debt facility not expected to be repaid in 2019 and $59,510 thousand employee entitlement provisions not expected to be called in 2019;
- The Consolidated Entity has a long history of refinancing expiring debt facilities.

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Rounding of amounts
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Victoria Power Networks (Finance) Pty Ltd ('company' or 'parent entity') as at 31 December 2018 and the results of all subsidiaries for the year then ended. Victoria Power Networks (Finance) Pty Ltd and its subsidiaries together are referred to in these financial statements as the 'Consolidated Entity'.

Note 41. Significant accounting policies (continued)

Subsidiaries are all those entities over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Consolidated Entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Consolidated Entity. Losses incurred by the Consolidated Entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Consolidated Entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Consolidated Entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Current and non-current classification
Assets and liabilities are presented in the Statement of Financial Position based on current and non-current classification.

An asset is classified as current when:

- it is either expected to be realised or intended to be sold or consumed in the Consolidated Entity's normal operating cycle;
- it is held primarily for the purpose of trading;
- it is expected to be realised within 12 months after the reporting period; or
- the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- it is either expected to be settled in the Consolidated Entity's normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Investments and other financial assets
Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Consolidated Entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Note 41. Significant accounting policies (continued)

Financial assets at amortised cost
A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Investments
Investments includes non-derivative financial assets with fixed or determinable payments and fixed maturities where the Consolidated Entity has the positive intention and ability to hold the financial asset to maturity. This category excludes financial assets that are held for an undefined period. Investments are carried at amortised cost using the effective interest rate method adjusted for any principal repayments. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Foreign currency transactions
All foreign currency transactions during the financial period are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated using the exchange rate at that date.
Exchange rate differences are brought to account in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise except that:

(i) exchange differences which related to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; and

(ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer Note 32).

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Consolidated Entity for the annual reporting period ended 31 December 2018. The Consolidated Entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Consolidated Entity, are set out below.

Note 41. Significant accounting policies (continued)

AASB 16 Leases
AASB 16 Leases will replace existing accounting requirements for leases under AASB 117 Leases. Under current requirements, leases are classified based on their nature as either finance leases, which are recognised on the Consolidated Statement of Financial Position, or operating leases, which are not recognised on the Consolidated Statement of Financial Position. Under AASB 16 Leases, the Consolidated Entity's accounting for operating leases as a lessee will result in the recognition of a right-of-use (ROU) asset and an associated lease liability on the Consolidated Statement of Financial Position. The lease liability represents the present value of future lease payments, with the exception of short-term and low value leases. An interest expense will be recognised on the lease liabilities and a depreciation charge will be recognised for the ROU assets. There will also be additional disclosure requirements under the new standard. The Consolidated Entity's accounting for leases as a lessor remains largely unchanged under AASB 16. The implementation project has made progress in setting accounting policy, finalising a 2018 impact assessment, budgeting and costing of transition and ongoing compliance, identifying data and system requirements, and finalising the implementation plan.

The Consolidated Entity will initially apply AASB 16 on 1 January 2019, using the modified retrospective simplified transition approach and will not restate comparative amounts for the year prior to first transition. When applying the modified retrospective approach to leases previously classified as operating leases under AASB 117, the Consolidated Entity can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Consolidated Entity is assessing the potential impact of using these practical expedients.

The Consolidated Entity has assessed the estimated impact that AASB 16 would have had on its Consolidated financial statements on 31 December 2018: recognition of $90,210 thousand of lease liabilities and right-of-use assets. The impact predominantly relates to the Consolidated Entity's property leases for office premises. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Consolidated Entity's borrowing rate at 1 January 2019, the composition of the Consolidated Entity's lease portfolio, the extent to which the Consolidated Entity chooses to use practical expedients and recognition exemptions, and the new accounting policies, which are subject to change until the Consolidated Entity presents its first financial statements that include the date of initial application.

Interpretation 23 Uncertainty over Income Tax Treatments
The interpretation is effective from 1 January 2019 and explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty;
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored;
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment;
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method best predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

The Consolidated Entity does not expect this interpretation to have a material impact on the Consolidated Entity's results in the future reporting periods.

Note 42. Events after the reporting period

Other than as disclosed in Note 24, no other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Victoria Power Networks (Finance) Pty Ltd
Directors' declaration
31 December 2018

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 41 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

T. H. Rourke
Director

4 March 2019

Deloitte.

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Independent Auditor's Report to the members of Victoria Power Networks (Finance) Pty Ltd

Opinion

We have audited the financial report of Victoria Power Networks (Finance) Pty Ltd (the "Company") and its subsidiaries (the "Group") which comprises the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company and Group's financial position as at 31 December 2018 and of their financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The Directors are responsible for the other information. The other information comprises the Directors Report included in the Group's annual report for the year ended 31 December 2018, 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 we do not express any form of assurance conclusion thereon.

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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, 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 of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and 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 has 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

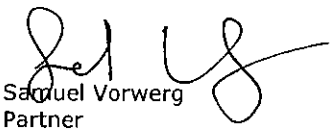
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



Samuel Vorwerg
Partner
Chartered Accountants
Melbourne, 4 March 2019

Victoria Power Networks (Finance) Pty Ltd
ABN 68 101 392 161

Financial Statements
for the year ended 31 December 2017

Directors' Report

The Directors of Victoria Power Networks (Finance) Pty Ltd ("VPNF" or the "Company") submit herewith their report on the Company and its subsidiaries (the "Consolidated Entity") for the financial year ended 31 December 2017. In order to comply with the provisions of the Corporations Act 2001 the Directors report as follows:

Directors

The following persons held office as Directors of Victoria Power Networks (Finance) Pty Ltd during the financial year:

P. P. Tulloch
H. L. Kam
C. T. Wan
A. J. Hunter
A. J. Fay (resigned 5 September 2017)
A. M. McDonald
R. F. Francis
K. Turner
L. S. Chan
N. K. Schiffer (appointed 5 September 2017)
T. H. Rourke

Principal activities

Victoria Power Networks (Finance) holds the investments in Powercor Australia Ltd, the CitiPower Group, Powercor Network Services Pty Ltd, CHED Services Pty Ltd and Energy Solutions Pty Ltd. The principal activities of the Consolidated Entity during the year were the management and operation of the electricity distribution and sub-transmission networks. The primary activity of the distribution businesses is the receipt of electricity from Victoria's high voltage transmission system and the distribution of electricity to customers in the Powercor and CitiPower distribution service areas. Almost all customers within both the Powercor and CitiPower distribution service areas are connected to the relevant distribution network, regardless of which retailer supplies the electricity.

Review of operations

The Consolidated Entity's operating profit before tax for the financial year was $320,834 thousand (2016: $399,850 thousand).

Dividends

In respect of the financial year ended 31 December 2017, dividends of $468,684 thousand were declared and $315,000 thousand paid (2016: $295,000 thousand declared and paid).

Significant changes in the state of affairs

During the financial year, there was no significant change in the state of affairs of the Consolidated Entity.

Matters subsequent to the end of the financial year

There has not been any other matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Likely developments and expected results of operations

No significant changes to the operations of VPNF are foreseen.

Environmental regulation

The Consolidated Entity is subject to all environmental legislation as per the Environmental Protection Act. During the year ended 31 December 2017 the Consolidated Entity adhered to all environmental regulation set under the law of the Commonwealth and the State and any other environmental regulator.

Indemnification of officers and auditors

During the financial year, a premium was paid in respect of a contract to insure the Directors of the Consolidated Entity, the Secretary and all officers of the Consolidated Entity against certain liabilities. The contract of insurance prohibits disclosure of the nature of the cover, its limits and the amount of the premium.

The Consolidated Entity has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Consolidated Entity or of any related body corporate against a liability incurred as such an officer or auditor.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191, dated 24 March 2016. Amounts in the Directors' Report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

T. H. Rourke
Director

Melbourne
5 March 2018

Deloitte.

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The Board of Directors
Victoria Power Networks (Finance) Pty Ltd
40 Market Street
Melbourne VIC 3000

5 March 2018

Dear Board Members

Victoria Power Networks (Finance) Pty Ltd

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Victoria Power Networks (Finance) Pty Ltd.

As lead audit partner for the audit of the financial statements of Victoria Power Networks (Finance) Pty Ltd for the financial year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

Samuel Vorwerg
Partner
Chartered Accountants

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Member of Deloitte Touche Tohmatsu Limited

Victoria Power Networks (Finance) Pty Ltd
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017

	Notes	Consolidated 2017 $'000	2016 $'000
Revenue from operating activities	1	**1,544,617**	1,588,717
Other gains / (losses)	2(a)	**6,034**	(596)
Expenses from ordinary activities	2(b)	**(1,035,570)**	(991,496)
Finance expenses	2(b)	**(194,247)**	(196,775)
Profit before income tax		**320,834**	399,850
Income tax expense	3(a)	**(95,745)**	(119,358)
Profit for the year		**225,089**	280,492
Other comprehensive income			
Items that may be classified to profit or loss:			
Cash flow hedges - interest rate risk	6(b)	**(27,584)**	35,682
Cash flow hedges - foreign currency risk	6(b)	**(13,782)**	(13,310)
Income tax relating to these items	6(b)	**12,410**	(6,712)
Items that will not be classified to profit or loss:			
Actuarial gains / (losses) on defined benefits plans	6(c)	**15,050**	(3,145)
Income tax relating to these items	6(c)	**(4,515)**	944
Other comprehensive (loss) / income for the year, net of tax		**(18,421)**	13,459
Total comprehensive income for the year		**206,668**	293,951
Profit is attributable to:			
Owners of Victoria Power Networks (Finance) Pty Ltd		**224,636**	280,350
Non-controlling interests		**453**	142
		225,089	280,492
Total comprehensive income for the year is attributable to:			
Owners of Victoria Power Networks (Finance) Pty Ltd		**206,215**	293,809
Non-controlling interests		**453**	142
		206,668	293,951

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Victoria Power Networks (Finance) Pty Ltd
Statement of Financial Position
As at 31 December 2017

	Notes	Consolidated 2017 $'000	2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	4(a)	**29,990**	50,967
Trade and other receivables	4(b)	**152,110**	148,790
Inventories	5(a)	**36,580**	33,234
Derivative financial instruments	8(b)	**119,030**	139
Other Financial Assets	4(d)	**375**	-
Other assets	5(b)	**24,792**	27,121
Total current assets		**362,877**	260,251
Non-current assets			
Investments in associates	5(c)	**368**	149
Derivative financial instruments	8(b)	**180,844**	442,738
Other financial assets	4(d)	**750**	1,125
Property, plant and equipment	5(d)	**6,713,995**	6,551,767
Intangible assets	5(e)	**832,800**	839,275
Other assets	5(b)	**26,997**	18,907
Total non-current assets		**7,755,754**	7,853,961
Total assets		**8,118,631**	8,114,212
LIABILITIES			
Current liabilities			
Trade and other payables	4(c)	**685,751**	302,696
Borrowings	4(e)	**1,230,083**	1,399,400
Derivative financial instruments	8(b)	**1,184**	425
Current tax liabilities		**448**	352
Provisions	5(g)	**93,200**	80,739
Other financial liabilities	4(g)	**375**	331
Deferred income	1(b)	**19,960**	75,298
Total current liabilities		**2,031,001**	1,859,241
Non-current liabilities			
Trade and other payables	4(c)	**24,918**	22,529
Borrowings	4(e)	**3,203,511**	3,194,184
Deferred income	1(b)	**17,394**	13,719
Derivative financial instruments	8(b)	**94,996**	28,410
Deferred tax liabilities	5(f)	**766,243**	768,250
Provisions	5(g)	**19,228**	4,120
Other financial liabilities	4(g)	**133**	536
Total non-current liabilities		**4,126,423**	4,031,748
Total liabilities		**6,157,424**	5,890,989
Net assets		**1,961,207**	2,223,223
EQUITY			
Issued capital	6(a)	**1,639,196**	1,639,196
Other reserves	6(b)	**2,268**	31,224
Retained earnings	6(c)	**319,198**	552,711
Non-controlling interests	6(d)	**545**	92
Total equity		**1,961,207**	2,223,223

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Victoria Power Networks (Finance) Pty Ltd
Statement of Changes in Equity
For the year ended 31 December 2017

Consolidated	Notes	Attributable to owners of Victoria Power Networks (Finance) Pty Ltd						
		Issued capital $'000	Financial equity / distribution reserve $'000	Hedging reserve $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2016		1,639,196	17,918	(2,354)	569,562	2,224,322	(50)	2,224,272
Profit for the year	6(c)	-	-	-	280,350	280,350	142	280,492
Other comprehensive income		-	-	15,660	(2,201)	13,459	-	13,459
Total comprehensive income for the year		**-**	**-**	**15,660**	**278,149**	**293,809**	**142**	**293,951**
Transactions with owners in their capacity as owners:								
Dividends provided for or paid	9(a)	-	-	-	(295,000)	(295,000)	-	(295,000)
Balance at 31 December 2016		**1,639,196**	**17,918**	**13,306**	**552,711**	**2,223,131**	**92**	**2,223,223**
Balance at 1 January 2017		1,639,196	17,918	13,306	552,711	2,223,131	92	2,223,223
Profit for the year	6(c)	-	-	-	224,636	224,636	453	225,089
Other comprehensive income		-	-	(28,956)	10,535	(18,421)	-	(18,421)
Total comprehensive income for the year		**-**	**-**	**(28,956)**	**235,171**	**206,215**	**453**	**206,668**
Transactions with owners in their capacity as owners:								
Dividends provided for or paid	9(a)	-	-	-	(468,684)	(468,684)	-	(468,684)
Balance at 31 December 2017		**1,639,196**	**17,918**	**(15,650)**	**319,198**	**1,960,662**	**545**	**1,961,207**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Victoria Power Networks (Finance) Pty Ltd
Statement of Cash Flows
For the year ended 31 December 2017

	Notes	Consolidated 2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers		**1,699,545**	1,636,271
Payments to suppliers and employees		**(847,935)**	(901,030)
Interest paid		**(150,633)**	(171,347)
Income taxes received / (paid)		**(168)**	(148)
Interest received		**657**	931
Net (repayment) / receipt of trust monies		**(471)**	137
Net cash inflow from operating activities	7(a)	**700,995**	564,814
Cash flows from investing activities			
Payments for property, plant and equipment		**(463,307)**	(473,286)
Proceeds from sale of property, plant and equipment		**3,774**	2,466
Investment in associate		**-**	(98)
Inflows from customer deposits		**41,538**	86,359
Payments for intangible assets		**(1,198)**	(766)
Net cash outflow from investing activities		**(419,193)**	(385,325)
Cash flows from financing activities			
Proceeds from borrowings - Related		**-**	61,854
Dividends paid to company's shareholders	9(a)	**(315,000)**	(295,000)
Proceeds from borrowings - external		**794,172**	1,256,939
Repayment of borrowings - external		**(781,000)**	(1,201,940)
Payment of establishment costs		**(951)**	(6,032)
Net cash outflow from financing activities		**(302,779)**	(184,179)
Net decrease in cash and cash equivalents		**(20,977)**	(4,690)
Cash and cash equivalents at the beginning of the year		**50,967**	55,657
Cash and cash equivalents at end of year	4(a)	**29,990**	50,967

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

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1 Revenue

	Consolidated	
	2017	2016
	$'000	$'000
From continuing operations		
Network revenue		
Distribution Use of System	**903,321**	900,095
Transmission Use of System	**301,437**	278,390
	1,204,758	1,178,485
Other operating revenue		
Construction and maintenance revenue	**85,051**	66,270
Prescribed metering	**102,504**	108,246
Customer contributions - cash	**-**	66,695
Customer contributions - non-cash	**-**	50,104
Alternative Control Services - connections and transfers	**17,049**	18,234
Alternative Control Services - public lighting	**12,157**	12,455
Alternative Control Services - other	**21,870**	13,704
Service level agreement revenue - related party	**20,762**	17,941
Other revenue	**44,090**	23,380
	303,483	377,029
Other income		
Interest income - external party	**621**	948
Interest income - related party	**35,755**	32,255
	36,376	33,203
	1,544,617	1,588,717

(a) Recognising revenue from major business activities

(i) Network revenue

Timing of recognition: Network revenue represents the revenue from Electricity Retailers for the transportation and delivery of electricity through the Distribution System to their customers. Revenue is calculated on a per Energy Retailer customer basis for electricity consumed, time connected to the Distribution Network and/or demand based charges.

Measurement of revenue: Rates per quantity unit and customer tariff type are approved by the Australian Energy Regulatory ('AER') each year.

(ii) Construction and maintenance revenue

Timing of recognition: Construction and maintenance revenue represents electricity related contracted services including design & construct, asset maintenance, commercial solar installations and other similar activities and is recognised by applying the stage of completion method where the outcome can be estimated reliably.

Measurement of revenue: Revenue is recognised in line with contracted amounts. Variations in contract work claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

1 Revenue (continued)

(a) Recognising revenue from major business activities (continued)

(iii) Prescribed metering revenue

Timing of recognition: Prescribed metering revenue comprises charges for up to 160 megawatt hour usage and greater than 160 megawatt hour usage. These charges cover the cost of maintaining, operating and replacing the meter once it has reached the end of its economic life. A per annum charge varies depending on the meter type installed.

Measurement of revenue: Prescribed metering revenue is based on a metering charge set by meter type as approved by the Australian Energy Regulatory ('AER') each year.

(iv) Customer contributions - cash

Timing of recognition: Customer contributions - cash represent the revenue recorded from construction of network augmentation assets where the customer was required to fund a portion of construction towards their network augmentation. Cash contributions are recognised as revenue by applying the stage of completion method where the outcome can be estimated reliably.

Measurement of revenue: The required contribution is calculated based on Chapter 5A of the National Electricity Rules.

From 1 January 2017, there was a change in the method used to fair value customer contributions - cash moving from a cost approach to an income approach. Both approaches are permitable under AASB 13 'Fair Value Measurement'. For projects in flight at 31 December 2016, recognition in 2017 has been under the income approach. If these projects would have continued to be recognised under the cost approach the amount recognised in the 2017 income statement would have been $32,453 thousand. Refer to note Critical judgements in applying accounting policies for further details.

This change was to align statutory accounting treatment to regulatory treatment.

(v) Customer contributions non-cash

Timing of recognition: Customer contributions non-cash represent the fair value of assets 'tied-in' to the distribution network where the customer undertook the construction of the augmentation asset(s) independently. It is a requirement that distribution network assets are transferred to the distribution licence holder for 'tie in'. Non-cash contributions are recognised on the date of 'tie-in' to the distribution network.

Measurement of revenue: Customer contributions non-cash are recognised at their fair value.

From 1 January 2017, there was a change in the method to fair value customer contributions - non-cash moving from a cost approach to an income approach. Both approaches are permitable under AASB 13 'Fair Value Measurement'. Refer to note Critical judgements in applying accounting policies for further details.

This change has been made to align the statutory and regulatory approaches.

(vi) Alternative Control Services Revenue

Timing of recognition: Alternative Control Services ("ACS") revenue relates to a set of customer specific activities, primarily on behalf of Electricity Retailers, that fall under a particular area of regulation due to their monopoly or semi-monopoly nature.

ACS activities are of short duration and are recognised either when performed or if the charge is based on duration, such as public lighting, the duration of the service.

Measurement of revenue: Rates per activity are based on either a fixed fee approved by the Australian Energy Regulator ("AER") or hourly labour rates approved by the AER and recovery of materials at cost.

1 Revenue (continued)

(a) Recognising revenue from major business activities (continued)

(vii) Service level agreement revenue

Timing of recognition: Service level agreement revenue relates to IT system, support and management services provided to entities outside of the Consolidated Entity. Revenue is recognised as services are performed.

Measurement of revenue: Revenue is based on agreed contracted rates for services.

1 Revenue (continued)

(b) Deferred income

	Consolidated					
	2017			2016		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Customer contributions	**-**	**-**	**-**	54,107	-	54,107
Other deferred income	**19,960**	**17,394**	**37,354**	21,191	13,719	34,910
	19,960	**17,394**	**37,354**	75,298	13,719	89,017

The Statement of Cash Flows includes amounts relating to customer deposits. This movement includes the transfer of customer contributions to trade and other payables. Refer to note 1(a)(iv) for further details.

2 Other income and expense items

(a) Other gains / (losses)

	Consolidated	
	2017 $'000	2016 $'000
Gain / (loss) on disposal of property, plant and equipment	**1,205**	(627)
(Loss) / gain Cross Currency Interest Rate Swap - Fair Value hedge (Hedging Instrument)	**(1,525)**	(57,895)
Gain / (loss) Foreign Currency Bank Loan- Fair value hedge relationship (Hedged Item)	**7,560**	54,714
(Loss) /gain Cross Currency Interest Rate Swap not designated in a hedge relationship	**(665)**	(88)
Loss Foreign Currency Bank Loan not designated as a hedged item in a hedge relationship	**479**	(68)
Research and development grant	**2,761**	3,317
Gain on investment in associate	**219**	51
Impairment of plant and equipment	**(4,000)**	-
	6,034	(596)

2 Other income and expense items (continued)

(b) Breakdown of expenses by nature

	Consolidated	
	2017	2016
	$'000	$'000
Expenses, excluding finance expenses		
Transmission fees	**301,437**	278,390
Materials expense	**151,600**	99,183
Personnel expense	**339,487**	320,612
Depreciation and amortisation expense	**302,183**	316,965
External labour, construction and professional services	**344,778**	293,085
Operating lease rentals	**11,831**	13,027
Taxes, fees & charges	**20,874**	18,688
Capitalised expenses *	**(448,896)**	(356,479)
Other expenses	**12,276**	8,025
	1,035,570	991,496

* Capitalised expenses include a combination of external labour, construction and professional services, materials expense and personnel expense.

2 Other income and expense items (continued)

(b) Breakdown of expenses by nature (continued)

	Consolidated	
	2017	2016
	$'000	$'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Freehold buildings	**7,475**	5,712
Plant and equipment	**109,280**	98,909
Distribution System	**177,911**	201,889
Total depreciation	**294,666**	306,510
Amortisation		
Software	**4,333**	7,273
Intellectual property	**3,184**	3,182
Total amortisation	**7,517**	10,455
Employee benefits expenses		
Defined contribution plans	**18,410**	16,807
Defined benefit plans	**6,959**	6,660
Other employee benefits	**13,348**	13,511
Total employee benefits expenses	**38,717**	36,978
Finance expenses		
Interest and finance expense - external party	**156,103**	162,364
Interest and finance expense - related parties	**38,144**	34,411
Total finance expenses	**194,247**	196,775

3 Income tax expense

(a) Income tax expense recognised in profit

	Consolidated	
	2017	2016
	$'000	$'000
Tax expense comprise:		
Current tax expense in respect of the current year	**89,872**	49,924
Deferred tax expense relating to the origination and reversal of temporary differences	**5,888**	69,455
Adjustments for current tax of prior periods	**(15)**	(21)
	95,745	119,358
Attributable to:		
Income tax expense	**95,745**	119,358
	95,745	119,358

(b) Numerical reconciliation of income tax expense to prima facie income tax expense

	Consolidated	
	2017	2016
	$'000	$'000
Profit from continuing operations before income tax expense	**320,834**	399,850
	320,834	399,850
Tax at the Australian tax rate of 30.0% (2016: 30.0%)	**96,250**	119,955
Tax effect of amounts which are not deductible / (taxable) in determining taxable profit:		
Non-deductible expenses	**363**	419
Non-assessable income	**(828)**	(995)
Effects of different taxation rates within consolidated group	**(25)**	-
	95,760	119,379
Adjustments for current tax of prior periods	**(15)**	(21)
Income tax expense	**95,745**	119,358

3 Income tax expense (continued)

(c) Income tax recognised in other comprehensive income

	Consolidated	
	2017	2016
	$'000	$'000
Deferred Tax:		
Revaluations of financial instruments	**12,410**	(6,712)
Actuarial movements in defined benefits plans	**(4,515)**	944
	7,895	(5,768)

(iv) Taxation accounting policies

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income or accounting profit. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Statement of Profit or Loss and Other Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

4 Financial assets and financial liabilities

The Consolidated Entity holds the following financial assets and financial liabilities:

	Notes	Consolidated 2017 $'000	2016 $'000
Financial assets			
Cash and cash equivalents	4(a)	**29,990**	50,967
Loans and receivables *	4(b)	**38,021**	29,359
Other financial assets	4(d)	**1,125**	1,125
		69,136	81,451
Derivative financial assets			
Cross currency swaps - fair value through profit and loss	8(b), 4(f)	**1,628**	2,293
Forward foreign exchange contracts - cash flow hedges	8(b), 4(f)	**244**	200
Cross currency swaps - cash flow hedges	8(f), 4(f)	**268,759**	378,957
Cross currency swaps - fair value hedges	8(f), 4(f)	**15,201**	35,684
Interest rate swap contracts - cash flow hedges	8(f), 4(f)	**14,042**	25,743
		299,874	442,877
		369,010	524,328
Financial liabilities			
Other financial liabilities			
Trade and other payables less trust funds	4(c)	**709,176**	323,261
Trust funds & deposits	4(c)	**1,493**	1,964
Other financial liabilities	4(g)	**508**	867
		711,177	326,092
Other financial liabilities - Borrowings			
Medium term notes	4(e)	**1,079,284**	1,653,959
Bank loans	4(e)	**760,081**	624,836
US senior notes	4(e)	**1,900,664**	1,960,461
HK Senior notes	4(e)	**389,894**	-
Fixed rate notes	4(e)	**303,671**	354,328
		4,433,594	4,593,584
Derivative financial liabilities			
Interest rate swap contracts - cash flow hedges	8(b), 4(f)	**17,437**	1,555
Forward foreign exchange contracts - cash flow hedges	8(b), 4(f)	**587**	192
Cross currency swaps - cash flow hedges	8(b), 4(f)	**45,476**	(24,550)
Cross currency swaps - fair value hedges	8(b), 4(f)	**32,680**	51,638
		96,180	28,835
		5,240,951	4,948,511

* Represents trade and other receivables, excluding accrued revenue.

Financial instruments are classified into the following categories:
- Amortised cost (cash and cash equivalents, interest bearing liabilities and trade and other receivables and payables)
- Fair value through other comprehensive income
- Fair value through Profit or Loss (derivative financial instruments)

4 Financial assets and financial liabilities (continued)

(a) Cash and cash equivalents

	Consolidated	
	2017	2016
	$'000	$'000
Cash at bank and in hand	**19,750**	5,638
Deposits at call	**10,240**	45,329
	29,990	50,967

(i) Cash and cash equivalents accounting policies

Cash and cash equivalents include cash on hand, cash at bank and deposits at call with financial institutions.

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours notice with no loss of interest.

4 Financial assets and financial liabilities (continued)

(b) Trade and other receivables

	Consolidated					
	2017			2016		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Trade receivables	**259**	**-**	**259**	273	-	273
Provision for doubtful debts	**(34)**	**-**	**(34)**	(26)	-	(26)
	225	**-**	**225**	247	-	247
Non trade receivables	**46,416**	**-**	**46,416**	38,123	-	38,123
Provision for doubtful debts	**(8,620)**	**-**	**(8,620)**	(9,011)	-	(9,011)
	37,796	**-**	**37,796**	29,112	-	29,112
Accrued revenue - unbilled electricity	**104,246**	**-**	**104,246**	87,989	-	87,989
Accrued revenue - other	**9,843**	**-**	**9,843**	31,442	-	31,442
	114,089	**-**	**114,089**	119,431	-	119,431
	152,110	**-**	**152,110**	148,790	-	148,790

(i) Trade receivables

Trade receivables are primarily for network fees which are received from electricity retailers. The retailer payments are governed by a Use of System Agreement which stipulates that all payments are to be made on the tenth day after monthly invoicing. Any provision for outstanding trade receivables would usually be in relation to billing disputes between the Consolidated Entity and electricity retailers.

(ii) Non - trade receivables

Non-trade receivables are predominantly from revenue for any non-electricity tariff services including customer initiated augmentation work, Alternative Control Services and external project work. It is policy of the Consolidated Entity to provide for any of these receivables following specific assessment of individual receivables where the probability of collection is assessed as doubtful.

(iii) Accrued revenue

Accrued revenue - unbilled electricity is an estimate of electricity consumption unbilled and unread at year end.

Accrued revenue - other represents accrued contract revenue and the under-recovery of prescribed metering revenue.

4 Financial assets and financial liabilities (continued)

(b) Trade and other receivables (continued)

(iv) Fair value and credit risk

Due to the short-term nature of the current receivables, their fair value is considered the same as their carrying value.

(v) Impairment and risk exposure

Information about the impairment of trade and other receivables, their credit quality and the group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 8(d).

(vi) Trade and other receivables accounting policies

Trade receivables, loans and other receivables are recorded at the amounts receivable less any provision for doubtful debts.

(c) Trade and other payables

	Consolidated					
	2017			2016		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Trade payables and accruals	**198,476**	**-**	**198,476**	155,768	-	155,768
Goods & services tax (GST) payable	**12,959**	**-**	**12,959**	5,460	-	5,460
Accrued interest - other	**25,128**	**-**	**25,128**	22,278	-	22,278
Trust funds & deposits	**986**	**507**	**1,493**	1,457	507	1,964
Other payables	**3,851**	**-**	**3,851**	9,541	-	9,541
Payable to related party	**195,023**	**24,411**	**219,434**	108,192	22,022	130,214
Customer deposits	**95,644**	**-**	**95,644**	-	-	-
Dividend payable	**153,684**	**-**	**153,684**	-	-	-
	685,751	**24,918**	**710,669**	302,696	22,529	325,225

The carrying amounts of current trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

(i) Trade and other payables accounting policies

These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Where customers are required to lodge security deposits for electricity connection works, the deposits will be refunded with interest over the period specified in each individual contract. All balances held in this category are included in the Statement of Financial Position.

(ii) Payable to related party

Balance represents an intercompany payable with Victoria Power Networks Pty Ltd ("VPN") in accordance with the taxation funding arrangement for the VPN tax consolidated group. The current portion of the balance represents tax payable which will be cash settled within 12 months.

4 Financial assets and financial liabilities (continued)

(c) Trade and other payables (continued)

(iii) Customer deposits

Where customers request augmentation works, deposits are received in advance of works commencing. The increase is due to the accounting change in customer contributions, refer to note 17(a) for further details.

4 Financial assets and financial liabilities (continued)

(d) Other financial assets

	Consolidated					
	2017			2016		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Term deposit	**375**	**750**	**1,125**	-	1,125	1,125

(e) Borrowings

	Consolidated					
	2017			2016		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Unsecured						
Medium term notes	**-**	**1,079,284**	**1,079,284**	574,929	1,079,030	1,653,959
Bank loans	**760,081**	**-**	**760,081**	624,836	-	624,836
US Senior notes	**470,002**	**1,430,662**	**1,900,664**	-	1,960,461	1,960,461
HK Senior notes	**-**	**389,894**	**389,894**	-	-	-
Fixed rate note	**-**	**303,671**	**303,671**	199,635	154,693	354,328
Total unsecured borrowings	**1,230,083**	**3,203,511**	**4,433,594**	1,399,400	3,194,184	4,593,584

(i) Compliance with loan covenants

Victoria Power Networks (Finance) Pty Ltd has complied with the financial covenants of its borrowing facilities during the 2017 and 2016 reporting periods.

(ii) Risk exposures

Details of the Consolidated Entity's exposure to risks arising from current and non-current borrowings are set out in note 8.

(iii) Borrowings accounting policies

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

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

4 Financial assets and financial liabilities (continued)

(f) Fair value measurements in the Consolidated Statement of Financial Position

(i) Financial assets and liabilities carried at fair value

The Consolidated Entity measures and recognises the following assets and liabilities at fair value on a recurring basis:
- Financial assets and financial liabilities at fair value through profit or loss (FVTPL)
- Derivative financial instruments
- Contingent consideration payable on acquisition of NG Group Holdings Pty Ltd

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable.
- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and applied within a valuation technique.
- Level 3 fair value measurements are those derived from inputs that are not based on observable market data (unobservable inputs) and applied within a valuation technique.

Foreign currency forward contracts are measured using the discounted cash flow method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Cross-currency swaps are measured using the discounted cash flow method. Future cash flows are estimated based on forward currency rates (from observable yield curves at the end of the reporting period) and contract currency rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Interest rate swaps are measured using the discounted cash flow method. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Contingent consideration payable: Estimated fair value of the amount payable based on probability of payment and discount factors as per the Sale and Shareholder agreement for NG Group Holdings Pty Ltd and management' best knowledge of current expectations. Under the sale and purchase agreement, the Consolidated Entity will pay vendors on achievement of EBITDA and free cashflow targets at the end of each year until 2018. Throughout the 3 year period, the unpaid funds are restricted and deposited in a term deposit to mature each year to assess whether targets have been met. If the targets have not been met, the term deposit is extended and if met, the balance less any amount due is redeposited. The contingent consideration payable is classified as a level 3 instrument.

4 Financial assets and financial liabilities (continued)

(f) Fair value measurements in the Consolidated Statement of Financial Position (continued)

(ii) Fair value hierarchy

Consolidated Entity - at 31 December 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Interest rate swap contracts - cash flow hedges	-	**14,042**	-	**14,042**
Forward foreign exchange contracts - cash flow hedges	-	**244**	-	**244**
Cross currency swaps - fair value through profit and loss	-	**1,628**	-	**1,628**
Cross currency swaps - fair value hedges	-	**15,201**	-	**15,201**
Cross currency swaps - cash flow hedges	-	**268,759**	-	**268,759**
Total financial assets	-	**299,874**	-	**299,874**
Financial Liabilities				
Cross currency swaps - cash flow hedges	-	**45,476**	-	**45,476**
Cross currency swaps - fair value hedges	-	**32,680**	-	**32,680**
Forward foreign exchange contracts - cash flow hedges	-	**587**	-	**587**
Interest rate swap contracts - cash flow hedges	-	**17,437**	-	**17,437**
Contingent consideration payable	-	-	**508**	**508**
Total financial liabilities	-	**96,180**	**508**	**96,688**

Consolidated Entity - at 31 December 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Forward foreign exchange contracts - cash flow hedges	-	200	-	200
Cross currency swaps - fair value through profit and loss	-	2,293	-	2,293
Interest rate swap contracts - cash flow hedges	-	25,743	-	25,743
Cross currency swaps - fair value hedges	-	35,684	-	35,684
Cross currency swaps - cash flow hedges	-	378,957	-	378,957
Total financial assets	-	442,877	-	442,877
Financial liabilities				
Interest rate swaps - cash flow hedges	-	1,555	-	1,555
Forward foreign exchange contracts - cash flow hedges	-	192	-	192
Contingent consideration payable	-	-	867	867
Cross Currency Swaps - Cashflow hedges	-	(24,550)	-	(24,550)
Cross Currency Swaps - Fair value hedges	-	51,638	-	51,638
Total financial liabilities	-	28,835	867	29,702

There were no transfers between Level 1 and 2 during the year. There were no transfers into or out of Level 3 during the period.

4 Financial assets and financial liabilities (continued)

(f) Fair value measurements in the Consolidated Statement of Financial Position (continued)

(iii) Fair value of financial instruments

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values. These instruments are valued using the same methodology as the level 2 instruments described in this note.

	Consolidated	
	Carrying Value $'000	Fair Value $'000
2017		
Medium term notes	1,079,284	1,082,048
US senior notes	1,900,664	1,947,690
HK senior notes	389,894	395,637
Fixed rate note	303,671	322,820
	3,673,513	3,748,195
2016		
Medium term notes	1,653,959	1,655,710
US senior notes	1,960,461	2,014,089
Fixed rate note	354,328	366,606
	3,968,748	4,036,405

4 Financial assets and financial liabilities (continued)

(g) Other financial liabilities

	Consolidated					
	2017			2016		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Other (contingent consideration)	**375**	**133**	**508**	331	536	867
	375	**133**	**508**	331	536	867

Contingent consideration representing the estimated fair value of the contingent consideration relating to the acquisition of NG Group Holdings Pty Ltd.

5 Non-financial assets and liabilities

(a) Inventories

	Consolidated	
	2017	2016
	$'000	$'000
Construction, general purpose, AMI meters & maintenance stock	**36,580**	33,234
	36,580	33,234

(i) Inventories accounting policies

Costs are assigned to inventory on hand on the basis of weighted average costs. Inventories are valued at the lower of cost or net realisable value.

(b) Other assets

	Consolidated					
	2017			2016		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Prepayments	**14,298**	**-**	**14,298**	14,890	-	14,890
Deferred transmission fee	**10,494**	**-**	**10,494**	12,231	-	12,231
Defined benefit superannuation	**-**	**26,997**	**26,997**	-	18,907	18,907
	24,792	**26,997**	**51,789**	27,121	18,907	46,028

(i) Other assets accounting policies

Transmission fees deferred/provided for represent the present value of the Directors' best estimates of the future economic benefits/sacrifices that will be received/incurred for transmission costs under/over collected through current electricity tariffs charged to customers.

5 Non-financial assets and liabilities (continued)

(c) Investments in associates

	Consolidated	
	2017	2016
	$'000	$'000
Investments in associates	**368**	149
	368	149

(i) Movements in shares in associates

	Consolidated	
	2017	2016
	$'000	$'000
Carrying amount at the beginning of the financial year	**149**	-
Acquisition of share in associate	**-**	98
Share of profits after income tax	**219**	51
Carrying amount at the end of the financial year	**368**	149

(ii) Investments in associates accounting policies

Investments in associates are recorded at cost. Investments in associates are accounted for under equity accounting and the carrying value of the investment is valued based on the share of profit in the entity and transactions with owners.

5 Non-financial assets and liabilities (continued)

(d) Property, plant and equipment

Consolidated Entity	Freehold land $'000	Freehold buildings $'000	Plant and equipment $'000	Distribution system $'000	Total $'000
At 1 January 2016					
Cost or fair value	116,614	173,080	950,614	7,417,492	8,657,800
Accumulated depreciation	-	(44,937)	(329,228)	(1,945,655)	(2,319,820)
Net book amount	116,614	128,143	621,386	5,471,837	6,337,980
Year ended 31 December 2016					
Opening net book amount	116,614	128,143	621,386	5,471,837	6,337,980
Additions	25,497	8,045	127,079	362,769	523,390
Depreciation charge	-	(5,712)	(98,909)	(201,889)	(306,510)
Disposals	-	(2,417)	(13,467)	(308,912)	(324,796)
Disposals - accumulated depreciation	-	1,767	11,024	308,912	321,703
Closing net book amount	142,111	129,826	647,113	5,632,717	6,551,767
At 31 December 2016					
Cost or fair value	142,111	178,708	1,064,226	7,471,349	8,856,394
Accumulated depreciation	-	(48,882)	(417,113)	(1,838,632)	(2,304,627)
Net book amount	142,111	129,826	647,113	5,632,717	6,551,767
Year ended 31 December 2017					
Opening net book amount	142,111	129,826	647,113	5,632,717	6,551,767
Additions	829	29,295	93,812	339,371	463,307
Depreciation charge	-	(7,475)	(109,280)	(177,911)	(294,666)
Impairment loss	-	-	-	(4,000)	(4,000)
Disposals	(180)	(1,220)	(8,082)	-	(9,482)
Disposals - accumulated depreciation	-	751	6,318	-	7,069
Closing net book amount	142,760	151,177	629,881	5,790,177	6,713,995
At 31 December 2017					
Cost	142,760	206,783	1,149,956	7,806,720	9,306,219
Accumulated depreciation	-	(55,606)	(520,075)	(2,016,543)	(2,592,224)
Net book amount	142,760	151,177	629,881	5,790,177	6,713,995

As at 31 December 2017, $372,787 thousand (2016: $435,999 thousand) of capital work in progress was included in the distribution system category carrying value.

5 Non-financial assets and liabilities (continued)

(d) Property, plant and equipment (continued)

(i) Property, plant and equipment accounting policies

Property, plant and equipment are stated as cost less accumulated depreciation and impairment (if any).

Cost

The purchase method of accounting is used for all acquisition of assets. Cost is determined as the fair value of the assets given up, or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Construction work in progress is stated at cost plus attributable overheads. Cost includes all costs directly related to specific projects including materials, labour and an allocation of overhead expenses.

Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land.

Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. The following estimated useful lives are used in the calculation of depreciation:

Category	**2017**	**2016**
Buildings	40 years	40 years
Plant and equipment	3 - 20 years	3 - 20 years
Distribution system	15 - 80 years	15 - 80 years

5 Non-financial assets and liabilities (continued)

(e) Intangible assets

Consolidated Entity	Goodwill $'000	Licences $'000	Software $'000	Intellectual Property $'000	Total $'000
At 1 January 2016					
Cost	1,311	773,122	202,708	143,240	1,120,381
Accumulation amortisation	-	-	(181,773)	(89,644)	(271,417)
Net book amount	1,311	773,122	20,935	53,596	848,964
Year ended 31 December 2016					
Opening net book amount	1,311	773,122	20,935	53,596	848,964
Additions	-	-	766	-	766
Amortisation charge	-	-	(7,273)	(3,182)	(10,455)
Closing net book amount	1,311	773,122	14,428	50,414	839,275
At 31 December 2016					
Cost	1,311	773,122	203,474	143,240	1,121,147
Accumulation amortisation	-	-	(189,046)	(92,826)	(281,872)
Net book amount	1,311	773,122	14,428	50,414	839,275
Year ended 31 December 2017					
Opening net book amount	1,311	773,122	14,428	50,414	839,275
Additions	-	-	1,198	-	1,198
Amortisation charge	-	-	(4,333)	(3,184)	(7,517)
Disposals	-	-	(329)	-	(329)
Disposals - accumulated amortisation	-	-	173	-	173
Closing net book amount	1,311	773,122	11,137	47,230	832,800
At 31 December 2017					
Cost	1,311	773,122	204,343	143,240	1,122,016
Accumulated amortisation	-	-	(193,206)	(96,010)	(289,216)
Net book amount	1,311	773,122	11,137	47,230	832,800

5 Non-financial assets and liabilities (continued)

(e) Intangible assets (continued)

Distribution licence
The distribution licence is an exclusive licence to distribute electricity within a defined geography or service territory. Impairment is reviewed at each reporting period date and whenever there is an indication that the distribution licence may be impaired.
The factors that played a significant role in determining that the licence has an indefinite life are as follows:
• the licence is an exclusive licence to distribute electricity within the defined service territories, or geographic regions;
• the licence is vested in perpetuity, subject to ongoing compliance with the licence conditions; and
• there is presently no available technology which is likely to replace the method of distribution of electricity.

Intellectual property
Intellectual property relates to network assets and systems.

Software
Software relates to IT systems.

(i) Determining cash generating units and impairment testing

Indefinite life intangible assets have been allocated to two cash-generating units, the Powercor and CitiPower electricity distribution networks, for the purposes of completing the annual impairment test. The balance of $773,122 thousand has been allocated between the Powercor and CitiPower cash-generating units at $608,037 thousand (2016: $608,037 thousand) and $164,285 thousand (2016: $164,285 thousand) respectively. The basis on which these cash-generating units' recoverable amounts have been determined is their fair value less costs of disposal. A five year discounted cash flow analysis has been used to determine fair value less costs of disposal. The key assumptions on which the Directors have based their assessment of future cash-flows and the approach to determining values for each were:

Terminal value
The terminal value was based on a multiple of the Regulated Asset Base (RAB) of the CitiPower and Powercor distribution networks. The RAB multiple used is in line with current market transactions.

Regulated revenue and expenditures
Regulated revenues and expenditures for the period 2018 to 2022 are primarily based on the Australian Energy Regulator's 2016 to 2020 Electricity Distributions Price Review decision plus a forecast on the current business plan for years subsequent to the 2020 determination. Electricity distribution revenue is based on the application of a 'revenue cap' to control distribution revenues during the regulatory control period, such that distribution revenues are no longer impacted by fluctuating volumes.

Non-regulated revenue and expenditure
Non-regulated revenue and expenditure were based on Management's best estimates with reference to historic performance.

The discounted cashflow model is not particularly sensitive to any assumption, such that a reasonably possible change in any assumption would not result in an impairment of the indefinite life intangible assets.

Discount rate
The post-tax discount rate used in the analysis was 4.07% (2016: 3.95%).

(ii) Intangible assets accounting policies

Amortisation
Amortisation is provided on intellectual property and software. Amortisation is amortised on a straight line basis so as to write off the net cost over the period benefits are expected to arise. The amortisation periods are as follows:

5 Non-financial assets and liabilities (continued)

(e) Intangible assets (continued)

(ii) Intangible assets accounting policies

Category	2017	2016
Intellectual Property	20 years	20 years
Software	3 - 10 years	3 - 10 years

5 Non-financial assets and liabilities (continued)

(f) Deferred tax balances

(i) Taxable and deductible temporary differences

Taxable and deductible temporary differences arise from the following:

	Consolidated			
2017	**Opening balance $'000**	**Charged to income $'000**	**Charged to other comprehensive income $'000**	**Closing balance $'000**
Property, plant & equipment	(593,788)	(17,391)	-	**(611,179)**
Intangible assets	(181,225)	-	-	**(181,225)**
Provisions	26,124	8,637	-	**34,761**
Accrued revenue	(4,153)	167	-	**(3,986)**
Doubtful debts & impairment losses	2,711	(115)	-	**2,596**
Deferred income	4,188	170	-	**4,358**
Prepayments	(786)	(105)	-	**(891)**
Defined benefit superannuation liability	(5,671)	2,087	(4,515)	**(8,099)**
Cash flow hedges	(5,702)	-	12,410	**6,708**
Discounting of intercompany loans	(10,090)	717	-	**(9,373)**
Investment in associates	(15)	(66)	-	**(81)**
Other	157	11	-	**168**
	(768,250)	**(5,888)**	**7,895**	**(766,243)**

	Consolidated			
2016	**Opening balance $'000**	**Charged to income $'000**	**Charged to other comprehensive income $'000**	**Closing balance $'000**
Property, plant & equipment	(531,524)	(62,264)	-	(593,788)
Intangible assets	(181,225)	-	-	(181,225)
Provisions	33,462	(7,338)	-	26,124
Accrued revenue	(2,067)	(2,086)	-	(4,153)
Doubtful debts & impairment losses	2,666	45	-	2,711
Deferred income	3,951	237	-	4,188
Prepayments	(699)	(87)	-	(786)
Defined benefit superannuation liability	(7,997)	1,382	944	(5,671)
Cash flow hedges	1,010	-	(6,712)	(5,702)
Discounting of intercompany loans	(10,737)	647	-	(10,090)
Investment in associates	-	(15)	-	(15)
Other	133	24	-	157
	(693,027)	**(69,455)**	**(5,768)**	**(768,250)**

5 Non-financial assets and liabilities (continued)

(f) Deferred tax balances (continued)

(ii) Australia Taxation Office Audit

The Head of Agreement for the deductibility of capitalised labour costs dispute was signed by the relevant parties and the ATO on 27 September 2016. This agreement has subsequently been converted into a Deed of Settlement and is currently with the ATO for review and comment.

The negotiations with the ATO on the dispute on transferred assets has been exhausted. On 25 August 2017, the ATO denied VPN's objections which triggered the litigation court process.

Events which have subsequently occurred include:
- VPN lodged its notices of appeal with the Federal Court on 19 October 2017 .
- The ATO filed its Appeal Statement on 21 November 2017.
- VPN lodged its Appeal Statement with the Federal Court on 4 December 2017.
- The initial case management hearing was heard on 14 December 2017. At the hearing the Court set out the timetable for the filing of evidence by both VPN and the ATO. It is expected the court hearing will be held in October / November 2018. Judgement may take between 3 - 6 months after the hearing.

5 Non-financial assets and liabilities (continued)

(f) Deferred tax balances (continued)

(iii) Deferred tax assets and liabilities

	Consolidated	
	2017	2016
	$'000	$'000
Deferred tax assets comprise:		
Temporary differences	**48,591**	33,180
	48,591	33,180
Deferred tax (liabilities) comprise:		
Temporary differences	**(814,834)**	(801,430)
	(814,834)	(801,430)
Net deferred tax liability	**(766,243)**	(768,250)

5 Non-financial assets and liabilities (continued)

(g) Provisions

	Consolidated					
	2017			2016		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Employee benefits	**74,236**	**4,518**	**78,754**	68,181	4,120	72,301
Uninsured losses	**3,429**	**-**	**3,429**	3,811	-	3,811
Vegetation management	**2,519**	**-**	**2,519**	3,860	-	3,860
Legal claims	**1,840**	**-**	**1,840**	1,030	-	1,030
Environment provision	**320**	**14,710**	**15,030**	1,552	-	1,552
Onerous contracts	**5,317**	**-**	**5,317**	454	-	454
Other provisions	**5,539**	**-**	**5,539**	1,851	-	1,851
	93,200	**19,228**	**112,428**	80,739	4,120	84,859

(i) Information about individual provisions and significant estimates

Employee benefits

The provision for employee benefits relates to the Consolidated Entity's liability for long service leave and annual leave.

Uninsured losses

The provision for uninsured losses represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to settle public liability and personal injury claims received which are not covered by the insurance policies of the Consolidated Entity.

Vegetation management

The provision for vegetation management represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required in order to maintain compliance with the Electricity Safety Regulations in low bushfire risk areas.

Legal claims

The provision for legal claims represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to settle legal claims.

Environment provision

The environmental provision represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to remediate network sites which have been issued with EPA clean up notices.

Onerous contracts

The onerous contracts provision represents the present value of the Directors' best estimate of the future sacrifice of economic benefits to finalise construction contracts with customers where the project is forecast to be loss making.

5 Non-financial assets and liabilities (continued)

(g) Provisions (continued)

Movements in provisions

Movements in each class of provision during the financial year, are set out below:

Consolidated Entity 2017	Employee benefits $'000	Uninsured losses $'000	Vegetation management $'000	Legal claims $'000	Environment $'000	Onerous Contracts $'000	Other $'000	Total $'000
Balance at 1 January 2017	72,301	3,811	3,860	1,030	1,552	454	1,851	84,859
Additional provisions recognised	34,599	481	2,519	810	14,003	4,863	5,539	62,814
Reductions arising from payments/other sacrifices of future economic benefits	(24,129)	(631)	(3,860)	-	(525)	-	(1,851)	(30,996)
Reductions resulting from re-measurement or settlement without cost	(4,017)	(232)	-	-	-	-	-	(4,249)
Balance at 31 December 2017	78,754	3,429	2,519	1,840	15,030	5,317	5,539	112,428

5 Non-financial assets and liabilities (continued)

(g) Provisions (continued)

(ii) Amounts not expected to be settled within 12 months

The leave obligations cover the Consolidated Entity's liability for long service leave and annual leave.

The current provision for employee benefits includes accrued annual leave and long service leave. Long service leave covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The current portion of the provision of $74,236 thousand (2016 - $68,181 thousand) is presented as current, since the Consolidated Entity does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Consolidated Entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	Consolidated	
	2017	2016
	$'000	$'000
Current leave obligations expected to be settled after 12 months	**58,250**	53,462
	58,250	53,462

(iii) Provisions accounting policies

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

5 Non-financial assets and liabilities (continued)

(h) Defined benefit superannuation plans

Powercor Australia Limited and CitiPower Pty Ltd (entities within the Consolidated Entity) operate defined benefit superannuation plans for qualifying employees. Under the plans, the employees are entitled to retirement benefits based on their final salary at the time of retirement or resignation. No other post-retirement benefits are provided to these employees.

The defined benefit superannuation plans are funded plans. The Equipsuper Contribution and Funding Policy provides for a review of the financial position of the Plan each six months, as at 30 June and 31 December, with the Company contribution rate comprising a long term contribution rate and an adjustment to meet the financing objective of a Funding Ratio of 105%.

The Funding Ratio is the ratio of assets to accrued liabilities, being the greater of vested benefits and the present value of past membership benefits. Where the Funding Ratio is greater than 100% the primary financing objective is to achieve 105% over five years. Where the Funding Ratio is less than 100% the primary financing objective is to achieve 100% over three years and 105% over five years.

In the most recent review of the financial position as at 30 June 2017 the actuary recommended the Company contribute at a nil rate of defined benefit members' salaries. In addition, the Company contributes salary sacrifice contributions and at the required rates for accumulation members.

The next review of the financial position and Company contribution rate is due as at 31 December 2017, to be completed by 31 March 2018.

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years or every year if the plan pays defined benefit pensions.

The Plan's Trustee is responsible for the governance of the Plan. The Trustee has a legal obligation to act solely in the best interests of Plan beneficiaries. The Trustee has the following roles:

- Administration of the Plan and payment to the beneficiaries from Plan assets when required in accordance with the Plan rules;
- Management and investment of the Plan assets; and
- Compliance with superannuation law and other applicable regulations.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licences and supervises regulated superannuation plans.

The expected return on plan assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for correlations of the investment returns between asset classes. The expected long-term returns for each asset class are determined by investment specialists based on their long term forecasts for each asset class. The returns used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has been deducted from the expected return.

(i) Defined benefit superannuation accounting policies

For defined benefit superannuation plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in full, directly in other comprehensive income, in the period in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

5 Non-financial assets and liabilities (continued)

(h) Defined benefit superannuation plans (continued)

(i) Defined benefit superannuation accounting policies

The defined benefit (liability) / asset recognised in the Statements of Financial Position represents the present value of the defined benefit obligation adjusted for unrecognised past service cost, net of the fair value of plan assets.

Any asset resulting from this calculation is limited to the past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The Plan assets are invested by the Trustee in a pool of assets with plans providing defined benefits for other employers. The assets have a benchmark weighting to equities of 50% and therefore the plan has a significant concentration of equity market risk. However within the equity investments, the allocation both globally and across the sectors is diversified.

5 Non-financial assets and liabilities (continued)

(h) Defined benefit superannuation plans (continued)

(ii) Statement of financial position amounts

The amounts recognised in the Statement of Financial Position are determined as follows:

	Consolidated	
	2017	2016
	$'000	$'000
Balance at 1 January	**(18,907)**	(26,657)
Current service cost	**7,687**	7,598
Net Interest cost	**(728)**	(938)
Actual return on plan assets less interest income	**(21,781)**	(18,638)
Actuarial losses arising from changes in demographic assumptions	**(177)**	-
Actuarial losses / (gains) arising from changes in financial assumptions	**8,245**	16,487
Actuarial losses arising from liability experience	**(1,333)**	5,296
Employer contributions	**(3)**	(2,055)
Net defined benefit asset in the Statement of Financial Position	**(26,997)**	(18,907)

We are not aware of any Asset and Liability matching strategies adopted by the Plan.

(iii) Fair value of Plan assets

Consolidated Entity	**Total $'000**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Asset category				
Investment funds	**308,183**	-	308,183	-
Total	**308,183**	-	308,183	-

The percentage invested in each asset class at the reporting date is:

	Consolidated	
	2017	2016
	%	%
Cash	**17.0%**	7.0%
Equity instruments	**32.0%**	50.0%
Debt instruments	**17.0%**	12.0%
Property	**8.0%**	9.0%
Other assets	**26.0%**	22.0%

5 Non-financial assets and liabilities (continued)

(h) Defined benefit superannuation plans (continued)

(iv) Reconciliations

	Consolidated	
	2017	2016
	$'000	$'000
Reconciliation of the present value of the defined benefit obligation:		
Balance at 1 January	**291,398**	290,255
Current service cost	**7,687**	7,598
Interest cost	**10,838**	11,671
Actuarial losses / (gains) arising from changes in financial assumptions	**8,245**	16,487
Actuarial losses arising from experience	**(1,333)**	5,296
Actuarial (gains) / losses arising from changes in demographic assumptions	**(177)**	-
Benefits paid	**(36,528)**	(40,925)
Other	**(1,973)**	(2,223)
Contribution by plan participants	**3,029**	3,239
Balance at 31 December	**281,186**	291,398
Reconciliation of the fair value of plan assets:		
Balance at 1 January	**310,305**	316,912
Interest income	**11,566**	12,609
Actuarial return on fund assets less interest income	**21,781**	18,638
Contributions by the company	**3**	2,055
Benefits paid	**(36,528)**	(40,925)
Contributions from plan participants	**3,029**	3,239
Other	**(1,973)**	(2,223)
Balance at 31 December	**308,183**	310,305

(v) Significant estimate: actuarial assumptions and sensitivity

The significant actuarial assumptions were as follows:

	Consolidated	
	2017	2016
Discount rate	**3.6%**	3.9%
Future salary increases	**3.5%**	3.5%
Expected rate of pension increase	**2.5%**	2.5%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption		Impact on defined benefit obligation Increase in assumption $'000		Decrease in assumption $'000	
	2017	2016	**2017**	2016	**2017**	2016
Discount rate	**0.5%**	0.5%	**(13,553)**	15,569	**14,548**	(14,485)
Salary growth rate	**0.5%**	0.5%	**11,682**	(10,833)	**(11,118)**	11,382

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

5 Non-financial assets and liabilities (continued)

(h) Defined benefit superannuation plans (continued)

(vi) Risk exposure

There are a number of risks to which the Plan exposes the Consolidated Entity. The more significant risks relating to the defined benefits are:

- **Investment risk** - The risk that investment returns will be lower than the assumed and the Consolidated Entity will need to increase contributions to offset this shortfall.
- **Salary growth risk** - The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- **Legislative risk** - The risk is that legislative changes could be made which increase the cost of providing the defined benefits.
- **Pension risks** - The risk is firstly that pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period. Secondly, that a greater proportion of eligible members will elect to take a pension benefit, which is generally more valuable than the corresponding lump sum benefit.
- **Inflation risk** - The risk that inflation is higher than anticipated, increasing pension payments, and thereby requiring additional employer contributions.

6 Equity

(a) Issued capital

	Notes	Consolidated 2017 Shares	2016 Shares	2017 $'000	2016 $'000
Ordinary shares					
Ordinary shares - fully paid	6(a)(ii)	**500**	500	**1,639,196**	1,639,196

(ii) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and have no special voting rights.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(iii) Reverse acquisition

The acquisition of Victoria Power Networks (Finance) Pty Ltd (formerly CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd) by Victoria Power Networks Pty Ltd in 2005 has been accounted for as a reverse acquisition. The amounts shown as share capital for the Consolidated Entity reflect that of Victoria Power Networks (Finance) Pty Ltd as a result of the reverse acquisition.

(b) Other reserves

The following table shows a breakdown of the Statement of Financial Position line item 'other reserves'. A description of the nature and purpose of each reserve is provided below the table.

	Consolidated 2017 $'000	2016 $'000
Hedging reserve - cash flow hedges	**(15,650)**	13,306
Surplus acquisition reserve	**17,918**	17,918
	2,268	31,224

6 Equity (continued)

(b) Other reserves (continued)

	Consolidated	
	2017	2016
	$'000	$'000
Movements:		
Hedging reserve - cash flow hedges		
Balance at 1 January	**13,306**	(2,354)
Interest rate risk		
AUD interest rate swaps	**(4,464)**	58,278
Interest rate swaps transferred to Profit or Loss	**(23,120)**	(22,596)
	(27,584)	35,682
Foreign currency risk		
Cross currency interest swaps	**(186,057)**	(78,221)
Cross currency swaps FX translation transferred to Profit or Loss	**166,776**	68,564
Cross currency interest rate swaps transferred to Profit or Loss	**5,849**	(3,337)
Forward foreign exchange contracts	**(358)**	(639)
Foreign exchange contracts transferred to capital expenditure	**8**	323
	(13,782)	(13,310)
Income tax relating to these items	**12,410**	(6,712)
Balance at 31 December	**(15,650)**	13,306

	Consolidated	
	2017	2016
	$'000	$'000
Movements:		
Surplus acquisition reserve		
Balance at 1 January	**17,918**	17,918
Balance at 31 December	**17,918**	17,918

(i) Nature and purpose of other reserves

Hedging reserve

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Surplus acquisition reserve

The acquisition of Victoria Power Networks (Finance) Pty Ltd (formerly CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd) by Victoria Power Networks Pty Ltd has been accounted for as a reverse acquisition. The reverse acquisition balances as shown above represents the elimination of the share capital and reserves of the Company against the carrying value of the investments and represents the surplus of the investments over and above the value of the reserves.

6 Equity (continued)

(c) Retained earnings

Movements in retained earnings were as follows:

	Consolidated	
	2017	2016
	$'000	$'000
Balance at 1 January	**552,711**	569,562
Net profit for the year	**224,636**	280,350
Actuarial gains / (losses) on defined benefits plans	**15,050**	(3,145)
Income tax relating to these items	**(4,515)**	944
Dividends	**(468,684)**	(295,000)
Balance at 31 December	**319,198**	552,711

(d) Non-controlling interests

Movements in non-controlling interests were as follows:

	Consolidated	
	2017	2016
	$'000	$'000
Balance at 1 January	**92**	(50)
Share of profit for the year	**453**	142
Balance at 31 December	**545**	92

7 Cash flow information

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

	Consolidated	
	2017	2016
	$'000	$'000
Profit for the year	**225,089**	280,492
Depreciation and amortisation	**302,183**	316,965
Income tax expense recognised in profit or loss	**95,745**	119,358
Gain / (loss) on sale of non-current assets	**(1,205)**	627
Impairment write down of plant and equipment	**4,000**	-
Non-cash interest revenue	**(35,755)**	(32,255)
Non-cash interest expense	**38,144**	34,411
Customer contributions	**-**	(116,799)
Superannuation adjustment	**6,959**	4,605
Amortised finance charges	**2,620**	3,327
Hedging and foreign exchange (gain) / loss	**(5,849)**	3,337
Non-cash Research and Development Grant	**(2,761)**	(3,317)
Gain on investment in associate	**(219)**	(51)
Gain on revaluation of contingent consideration	**(359)**	-
Income taxes paid	**(168)**	(148)
	628,424	610,552
Movements in working capital:		
Decrease/(increase) in trade and other receivables	**(3,320)**	13,518
Decrease/(increase) in inventories	**(3,346)**	(5,246)
Increase in other assets	**2,329**	(5,418)
Increase / (decrease) in trade and other payables	**101,002**	(26,108)
Increase / (decrease) in provisions	**27,569**	(25,951)
(Decrease)/increase in deferred income	**(51,663)**	3,467
	72,571	(45,738)
Net cash inflow from operating activities	**700,995**	564,814

7 Cash flow information (continued)

(b) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	Consolidated	
	2017	2016
	$'000	$'000
Total facilities		
Bank overdrafts	**3,000**	3,000
Working capital facilities	**90,000**	90,000
Bank loans	**1,050,000**	1,150,000
Medium Term Notes	**1,080,000**	1,655,000
US Senior notes	**1,904,915**	1,965,229
HK Senior notes	**389,894**	-
Fixed Rate Note	**304,737**	355,000
	4,822,546	5,218,229
Used at balance date		
Bank loans	**762,000**	628,000
Medium Term Notes	**1,080,000**	1,655,000
US Senior notes	**1,904,915**	1,965,229
HK Senior notes	**389,894**	-
Fixed Rate Note	**304,737**	355,000
	4,441,546	4,603,229
Unused at balance date		
Bank overdrafts	**3,000**	3,000
Working capital facilities	**90,000**	90,000
Bank loans	**288,000**	522,000
	381,000	615,000

(c) Non-cash investing and financing activities

	Consolidated	
	2017	2016
	$'000	$'000
Receipt of non-cash customer contributions	**-**	50,104
	-	50,104

7 Cash flow information (continued)

(d) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

Net debt	Consolidated 2017 $'000	2016 $'000
Cash and cash equivalents	**29,990**	50,967
Borrowings - repayable within one year	**(1,230,083)**	(1,399,400)
Borrowings - repayable after one year	**(3,203,511)**	(3,194,184)
Net debt	**(4,403,604)**	(4,542,617)

Consolidated Entity	Other assets Cash/bank overdraft $'000	Liabilities from financing activities Borrow. due within 1 year $'000	Borrow. due after 1 year $'000	Total $'000
Net debt as at 1 January 2016	55,657	(1,343,562)	(3,320,938)	(4,608,843)
Cash flows	(4,690)	601,940	(650,907)	(53,657)
Foreign exchange adjustments	-	115,573	7,638	123,211
Other non-cash movements	-	(773,351)	770,023	(3,328)
Net debt as at 31 December 2016	50,967	(1,399,400)	(3,194,184)	(4,542,617)
Net debt as at 1 January 2017	**50,967**	**(1,399,400)**	**(3,194,184)**	**(4,542,617)**
Cash flows	(20,977)	781,000	(793,221)	(33,198)
Foreign exchange adjustments	-	12,037	162,793	174,830
Other non-cash movements	-	(623,720)	621,101	(2,619)
Net debt as at 31 December 2017	29,990	(1,230,083)	(3,203,511)	(4,403,604)

8 Financial risk management

(a) Financial risk management objectives

The Consolidated Entity's activities expose it to a variety of financial risks: market risk (including foreign exchange, interest rate and price risk), credit risk and liquidity risk. The Group's overall risk management strategy focuses on monitoring and managing these financial risks such that potential adverse effects on the Consolidated Entity's financial performance are minimised. The Consolidated Entity uses a range of derivative financial instruments to hedge these risk exposures. Derivative financial instruments are not entered into or traded for speculative purposes.

Financial risk management is carried out by the Consolidated Entity's Treasury function under policies approved by the Board of Directors. The Consolidated Entity has written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative and non derivative financial instruments and the investment of excess liquidity.

(b) Derivatives

Derivatives are only used for economic hedging purposes and not as trading or speculative investments. The Consolidated Entity has the following derivative financial instruments:

	Consolidated	
	2017	2016
	$'000	$'000
Current assets		
Forward foreign exchange contracts - cash flow hedges	**232**	139
Cross currency swaps - designated in a hedge accounting relationship	**118,313**	-
Cross currency swaps - fair value through profit and loss	**485**	-
Total current derivative financial instrument assets	**119,030**	139
Non-current assets		
Interest rate swap contracts - cash flow hedges	**14,042**	25,743
Forward foreign exchange contracts - cash flow hedges	**12**	61
Cross currency swaps - designated in a hedge accounting relationship	**165,647**	414,641
Cross currency swaps - fair value through profit and loss	**1,143**	2,293
Total non-current derivative financial instruments	**180,844**	442,738
Current liabilities		
Interest rate swap contracts - cash flow hedges	**820**	340
Forward foreign exchange contracts - cash flow hedges	**364**	85
Total current derivative financial instrument liabilities	**1,184**	425
Non-current liabilities		
Interest rate swap contracts - cash flow hedges	**16,617**	1,215
Forward foreign exchange contracts - cash flow hedges	**223**	107
Cross currency swaps - designated in a hedge accounting relationship	**78,156**	27,088
Total non-current derivative financial instrument liabilities	**94,996**	28,410

8 Financial risk management (continued)

(b) Derivatives (continued)

(i) Classification of derivatives

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to mature within 12 months after the end of the reporting period.

For hedged forecast transactions that result in the recognition of a non-financial asset, the group has elected to include related hedging gains and losses in the initial measurement of the cost of the asset.

(ii) Fair value measurements

For information about the methods and assumptions used in determining the fair value of derivatives please refer to note 4(f).

(c) Market risk

The Consolidated Entity's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Consolidated Entity enters into the following derivative financial instruments to manage their exposure to these risks:

- Cross Currency Swaps to eliminate all foreign currency risks associated with foreign currency denominated borrowings and to determine the interest rate reference for the life of the borrowing;
- Foreign currency forward contracts and options to hedge the exchange rate risk arising from payables and receivables denominated in foreign currencies; and
- Interest rate swaps and options to mitigate the risk of rising interest rates.

The Consolidated Entity measures the market risk exposures using sensitivity analysis and cash flow forecasting. There has been no change from the prior year to the types of market risks the Consolidated Entity is exposed to or manner in which the risks are managed and measured.

(i) Foreign exchange risk

Foreign exchange risk arises from recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Consolidated Entity undertakes certain transactions denominated in foreign currencies, primarily US Dollars (USD), from which exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

Cross currency swaps

The Consolidated Entity has cross currency interest rate swaps designated into fair value and cash flow hedges to manage the foreign exchange and interest rate risk on foreign currency borrowings.

	Exchange rate average		**Interest rate average**		**Contract value (AUD)**		**Fair value**	
Consolidated	**2017**	2016	**2017 %**	2016 %	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Buy USD								
Less than 1 year	**1.04**	-	**4.06**	-	**351,435**	-	**118,798**	-
1 to 2 years	**1.04**	1.04	**2.52**	4.06	**69,491**	351,435	**21,303**	167,864
2 to 5 years	**1.04**	1.04	**3.90**	3.62	**277,580**	347,072	**94,972**	162,527
5 years +	**0.81**	0.81	**3.12**	3.17	**973,105**	866,552	**(16,440)**	59,455
					1,671,611	1,565,059	**218,633**	389,846

8 Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign exchange risk (continued)

	Exchange rate average		Interest rate average		Contract value (AUD)		Fair value	
Consolidated	**2017**	2016	**2017 %**	2016 %	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Buy HKD								
5 years +	**5.91**	-	**3.29**	-	**397,858**	-	**(11,201)**	-
					397,858	-	**(11,201)**	-

Foreign exchange forward contracts

The foreign exchange forward contracts are effective hedges of their associated underlying exposures from both an economic and accounting perspective. An insignificant amount of hedge ineffectiveness is recognised through the profit or loss due to some timing mis-matches.

It is the policy of the Group to enter into foreign currency forward contracts or options to cover significant foreign currency payments and receipts. These forward contracts and options are designated as cashflow hedges.

	Exchange rate Average		Foreign currency		Contract value (AUD)		Fair value	
Consolidated	**2017**	2016	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Buy USD								
0 to 3 months	**0.77**	0.72	**4,280**	2,259	**5,574**	3,126	**(97)**	(1)
3 to 6 months	**0.75**	0.72	**2,963**	1,205	**3,948**	1,673	**(151)**	(2)
6 to 9 months	**0.78**	0.74	**1,041**	209	**1,329**	282	**5**	8
9 to 12 months	**0.75**	0.75	**363**	988	**484**	1,326	**(19)**	49
1 to 2 years	**0.71**	0.71	**1,013**	1,992	**1,422**	2,816	**(121)**	(32)
2 to 5 years	**0.69**	0.70	**649**	1,663	**939**	2,362	**(99)**	(14)
			10,309	8,316	**13,696**	11,585	**(482)**	8

	Exchange rate Average		Foreign currency		Contract value (AUD)		Fair value	
Consolidated	**2017**	2016	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Buy EUR								
0 to 3 months	**0.67**	-	**2,448**	-	**3,646**	-	**122**	-
3 to 6 months	**0.66**	-	**190**	-	**287**	-	**7**	-
1 to 2 years	**0.65**	-	**223**	-	**344**	-	**10**	-
			2,861	-	**4,277**	-	**139**	-

8 Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign exchange risk (continued)

Sensitivity

The following table details the Consolidated Entity's sensitivity to a 10% increase and decrease in the value of the Australian Dollar (AUD) against the relevant foreign currencies. A sensitivity of 10% has been selected as it is considered reasonable given the current level of exchange rates and volatility observed both on an historical basis and in market expectations for future movements. The sensitivity analysis includes outstanding foreign currency denominated financial assets and liabilities (including derivatives) and adjusts their translation at period end for a 10% change in foreign exchange rates on a total portfolio basis with all other variables held constant.

The foreign currency risk exposure from recognised assets and liabilities arises primarily from long term borrowings denominated in foreign currencies. There is no significant impact on profit from foreign currency movements associated with these borrowings because they are effectively hedged.

Consolidated Entity	Impact on post-tax profit		Impact on other components of equity		Total impact on equity	
	2017	2016	**2017**	2016	**2017**	2016
Index	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
AUD/USD & AUD/HKD exchange rate - increase 10%	**427**	(26)	**(21,039)**	(10,078)	(20,612)	(10,104)
AUD/USD & AUD/HKD exchange rate - decrease 10%	**395**	32	**31,779**	12,320	32,174	12,352

(ii) Interest Rate Risk

The Consolidated Entity is exposed to interest rate risk as it invests and borrows funds at both fixed and floating interest rates. The risks are managed by maintaining an appropriate mix between fixed and floating rate borrowings and through the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to confirm alignment with the debt and liquidity management policy and ensure that the Consolidated Entity is not exposed to excess risk from interest rate volatility.

The Consolidated Entity's interest rate swap derivatives are detailed under the interest rate swap contract section.

Interest rate swap contracts

Under interest rate swap contracts the Consolidated Entity agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Consolidated Entity to mitigate the risk of changing interest rates on the fair value of fixed rate debt held and the cash flow exposures of floating rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the yield curves at the reporting date and the credit risk inherent in the contract. The average interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms for interest rate swap contracts outstanding as at the reporting date.

8 Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest Rate Risk (continued)

	Average fixed interest rate		Notional principal amount		Fair value	
Receive floating / pay fixed	**2017 %**	2016 %	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Consolidated						
Less than 1 year	**2.10**	2.08	**400,000**	200,000	**(820)**	(340)
1 to 2 years	**2.18**	2.10	**400,000**	400,000	**(1,482)**	(898)
2 to 5 years	**2.36**	2.25	**1,200,000**	1,200,000	**(5,627)**	1,578
5 years+	**2.53**	2.50	**1,775,000**	1,900,000	**4,534**	23,848
			3,775,000	3,700,000	**(3,395)**	24,188

The Consolidated Entity enters into interest rate swap contracts exchanging floating rate interest amounts for fixed rate amounts in order to reduce the floating cash flow exposure resulting from floating interest rates on borrowings.

Interest rate sensitivity

The sensitivity analysis contained in the table below has been determined based on the exposure to interest rates for both derivative and non derivative instruments at the reporting date with the stipulated change taking place at the start of the financial year and held constant for the reporting period. A sensitivity of 1% (100 basis points) has been selected as this is considered reasonable given the current level of both short and long term interest rates.

Profit would have been affected mainly as a result of the ineffective portion of cash flow and fair value hedge transactions and floating rate financial assets and liabilities that are not in a cash flow hedge relationship. Equity, through the cash flow hedge reserve, would have been affected mainly as a result of an increase/decrease in the fair value of interest rate swaps which qualify for cash flow hedge accounting.

	Net profit		Cash flow hedge reserve		Total impact on equity	
Consolidated	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Impact of movement in interest rates (AUD)						
1% increase in interest rates - increase/(decrease)	**(556)**	(580)	**111,117**	115,119	110,561	114,539
1% decrease in interest rates - (decrease)/increase	**556**	580	**(119,721)**	(122,898)	(119,165)	(122,318)
Impact of movement in interest rates (USD) / (HKD)						
1% increase in interest rates - increase/(decrease)	**(488)**	(127)	**(6,904)**	(6,745)	(7,392)	(6,872)
1% decrease in interest rates - (decrease)/increase	**(336)**	131	**7,211**	7,108	6,875	7,239

8 Financial risk management (continued)

(d) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss. The Consolidated Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. The Consolidated Entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions contracted is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers with ongoing credit evaluation performed on their financial condition. Where appropriate, additional collateral credit support is obtained to mitigate the risk of loss.

The Consolidated Entity does not have significant credit risk exposure to any single counterparty. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The Consolidated Entity does not have financial instruments that meet the presentation offset requirements of AASB 132 "Financial Instruments: Presentation" and as such each individual financial instrument is presented gross in the Financial Statements. However, the Consolidated Entity has for credit management purposes, Master Netting arrangements where offset is permitted as a result of certain credit events. Application of these credit arrangements for the Consolidated Entity at the financial reporting date would result in the following offsets as detailed below:

		Gross amounts not offset (as do not meet offsetting accounting requirements)		
Consolidated 2017	**Gross amounts of financial instruments presented in the statement of financial position $'000**	**Financial instruments $'000**	**Collateral received or pledged $'000**	**Net amount $'000**
Financial assets				
Forward foreign exchange contracts - cash flow hedges	244	244	-	-
Interest rate swap contracts - cash flow hedges	14,042	14,042	-	-
Cross currency swaps	285,588	78,156	-	207,432
	299,874	92,442	-	207,432

8 Financial risk management (continued)

(d) Credit risk (continued)

Consolidated 2017	Gross amounts of financial instruments presented in the statement of financial position $'000	Gross amounts not offset (as do not meet offsetting accounting requirements) Financial instruments $'000	Collateral received or pledged $'000	Net amount $'000
Financial liabilities				
Forward foreign exchange contracts - cash flow hedges	(587)	(244)	-	(343)
Interest rate swap contracts - cash flow hedges	(17,437)	(14,042)	-	(3,395)
Cross currency swaps	(78,156)	(78,156)	-	-
	(96,180)	(92,442)	-	(3,738)

Consolidated 2016	Gross amounts of financial instruments presented in the statement of financial position $'000	Gross amounts not offset (as do not meet offsetting accounting requirements) Financial instruments $'000	Collateral received or pledged $'000	Net amount $'000
Financial assets				
Forward foreign exchange contracts - cash flow hedges	200	192	-	8
Cross currency swaps	416,934	28,642	-	388,292
Interest rate swap contracts - cash flow hedges	25,743	-	-	25,743
	442,877	28,834	-	414,043
Financial liabilities				
Interest rate swap contracts - cash flow hedges	(1,555)	(1,555)	-	-
Forward foreign exchange contracts - cash flow hedges	(192)	(192)	-	-
Cross currency swaps	(27,088)	(27,088)	-	-
	(28,835)	(28,835)	-	-

8 Financial risk management (continued)

(d) Credit risk (continued)

Impaired trade receivables

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment. The group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash.

Impairment losses are recognised in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses.

	Consolidated	
	2017	2016
	$'000	$'000
Age of impaired non-trade receivables		
Not past due	**122**	803
Less than 60 days	**1,477**	815
60 to 90 days	**399**	372
Over 90 days	**6,622**	7,020
	8,620	9,010

Movements in the provision for impairment of trade and non-trade receivables that are assessed for impairment collectively are as follows:

	Consolidated	
	2017	2016
	$'000	$'000
Balance at beginning of year	**9,037**	8,886
Provision for impairment recognised during the year	**4,189**	4,363
Receivables written off during the year as uncollectible	**(4,140)**	(2,120)
Unused amount reversed	**(432)**	(2,092)
At 31 December	**8,654**	9,037

Past due but not impaired

As at 31 December 2017, trade and non-trade receivable of $10,136 thousand (2016 $14,922 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated	
	2017	2016
	$'000	$'000
Less than 60 days	**4,600**	12,168
60 to 90 days	**4,704**	833
Over 90 days	**832**	1,921
	10,136	14,922

8 Financial risk management (continued)

(d) Credit risk (continued)

Past due but not impaired (continued)

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Consolidated Entity does not hold any collateral in relation to these receivables.

(e) Liquidity risk

The Board of Directors is ultimately responsible for liquidity risk and has adopted an appropriate liquidity risk management framework to manage the Consolidated Entity's funding and liquidity requirements. The Consolidated Entity manages liquidity risk by:

- maintaining adequate reserves, banking and reserve borrowing facilities;
- continuously monitoring forecast and actual cash flows and
- matching the maturity profiles of financial assets and liabilities.

8 Financial risk management (continued)

(e) Liquidity risk (continued)

Liquidity and interest rate tables

The following table details the Consolidated Entity's remaining contractual maturity for its derivative and non-derivative financial liabilities and derivative financial assets. The table is drawn up based upon the future undiscounted principal and interest cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis and which are not included in the carrying amount of the financial liability or derivative financial asset on the Statement of financial position.

		Nominal cash flows					
Consolidated 2017	**Weighted average effective interest rate %**	**0 to 1 year $'000**	**1 to 2 years $'000**	**2 to 5 years $'000**	**Over 5 years $'000**	**Adjust $'000**	**Carrying amount $'000**
Financial liabilities (derivative and non derivative)							
Cross currency swap-Receive USD / HKD	3.23%	(30,702)	(30,598)	(91,899)	(1,146,292)	-	(1,299,491)
Cross currency swap-Pay AUD	4.39%	36,157	39,611	132,907	1,254,546	(85,575)	1,377,646
Medium term notes	2.63%	24,121	174,864	984,696	-	(104,397)	1,079,284
Bank loans	2.65%	765,778	-	-	-	(5,697)	760,081
US senior notes	3.52%	525,925	141,161	478,420	1,127,196	(372,037)	1,900,665
HK senior notes	3.29%	12,744	12,640	38,024	448,651	(122,165)	389,894
Interest rate swaps	2.42%	3,468	2,156	890	13,967	(3,044)	17,437
Fixed rate notes	4.17%	12,751	12,702	61,743	351,917	(135,442)	303,671
Forward contracts	-%	363	132	108	-	(16)	587
Trade and other payables	-%	709,540	375	-	-	(242)	709,673
Trust funds & deposits	-%	986	-	-	507	-	1,493
Total financial liabilities		2,061,131	353,043	1,604,889	2,050,492	(828,615)	5,240,940
Financial assets (derivative)							
Cross currency swap-Receive USD	3.81%	507,967	123,203	424,545	429,555	(7,431)	1,477,839
Cross currency swap-Pay AUD	3.65%	(380,180)	(94,378)	(330,320)	(387,372)	-	(1,192,250)
Forward contracts	-%	228	6	-	-	10	244
Interest rate swaps	2.12%	(150)	164	1,928	14,409	(2,309)	14,042
Total financial assets		127,865	28,995	96,153	56,592	(9,730)	299,875
		1,933,266	324,048	1,508,736	1,993,900	(818,885)	4,941,065

8 Financial risk management (continued)

(e) Liquidity risk (continued)

Consolidated 2016	Weighted average effective interest rate %	Nominal cash flows 0 to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Adjust $'000	Carrying amount $'000
Financial liabilities (derivative and non derivative)							
Cross currency swap-Receive USD / HKD	2.79%	(15,480)	(15,480)	(46,440)	(641,936)	-	(719,336)
Cross currency swap-Pay AUD	4.79%	19,549	20,951	72,815	682,221	(49,112)	746,424
Medium term notes	2.56%	907,970	20,148	209,499	635,244	(118,902)	1,653,959
Bank loans	2.80%	632,364	-	-	-	(7,528)	624,836
US senior notes	3.52%	69,559	555,079	618,217	1,122,352	(404,746)	1,960,461
Interest rate swaps	2.13%	2,695	169	(1,110)	-	(199)	1,555
Fixed rate notes	5.13%	212,469	6,719	45,156	177,206	(87,222)	354,328
Forward contracts	-%	85	73	39	-	(5)	192
Trade and other payables	-%	323,261	375	750	-	(258)	324,128
Trust funds & deposits	-%	1,457	-	-	507	-	1,964
Total financial liabilities		2,153,929	588,034	898,926	1,975,594	(667,972)	4,948,511
Financial assets (derivative)							
Cross currency swap-Receive USD	3.81%	54,079	549,872	577,510	480,416	(5,833)	1,656,044
Cross currency swap-Pay AUD	3.84%	(33,946)	(382,786)	(415,939)	(406,439)	-	(1,239,110)
Forward contracts	-%	140	40	23	-	(3)	200
Interest rate swaps	2.43%	(16,336)	(8,979)	19,459	38,390	(6,791)	25,743
Total financial assets		3,937	158,147	181,053	112,367	(12,627)	442,877
		2,149,992	429,887	717,873	1,863,227	(655,345)	4,505,634

8 Financial risk management (continued)

(f) Hedging

Hedging refers to the way in which we use derivative financial instruments, to manage our exposure to financial risks as described below under "Types of hedging instruments". The gain or loss on the underlying instrument ("hedged item") is expected to move in the opposite direction to the gain or loss on the derivative ("hedging instrument"), therefore offsetting our risk position. Hedge accounting is a technique that enables the matching of the gains and losses on designated hedging instruments and hedged items in the same accounting period to minimise volatility in Profit or Loss.

Our major exposure to interest rate risk and foreign currency risk arises from our long-term borrowings. We have also translation foreign currency risk associated with transactional foreign currency exposures, such as purchases made in foreign currencies.

Types of hedging instruments
As part of the risk management strategy set out above, the Consolidated Entity holds the following types of derivative instruments:

Interest rate swap contracts: the Consolidated Entity agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Consolidated Entity to mitigate the risk of changing interest rates on the fair value of fixed rate debt held and the cash flow exposures of floating rate debt held.

Cross-currency swap contracts: the Consolidated Entity agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the consolidated entity to mitigate the risk of adverse movements in foreign exchange rates.

Foreign currency forward contracts: the Consolidated Entity undertakes certain transactions denominated in foreign currencies, primarily USD, from which exposure to exchange rate fluctuations arise. Such contracts enable the Consolidated Entity to lock in the exchange rate at the future date for the payment or receipt.

We enter into the above derivative instruments to offset the risks arising from our long-term borrowings and transactions denominated in foreign currency. To the extent permitted by AASB 9, we formally designate and document these financial instruments as fair value and cash flow hedges for accounting purposes. In order to qualify for hedge accounting, AASB 9 requires that prospective hedge effectiveness testing meets all of the following criteria:

- an economic relationship exists between the hedged item and hedging instrument
- the effect of credit risk does not dominate the value changes resulting from the economic relationship
- the hedge ratio is the same as that resulting from amounts of hedged items and hedging instruments for risk management.

As a result of borrowing in foreign currency, the Consolidated Entity is exposed to foreign exchange and foreign interest rate risk (USD). Cross-currency swaps are used to hedge both the foreign exchange risk and foreign interest rate risk over the full term of the foreign currency borrowing. The swaps are designated as cash flow hedges of foreign currency/AUD forward foreign exchange risk of the foreign currency borrowing, fair value hedge of the foreign currency benchmark interest rate risk of the foreign currency benchmark component and cash flow hedge of foreign currency/AUD spot foreign exchange risk of the foreign currency borrowing principal.

8 Financial risk management (continued)

(f) Hedging (continued)

Consolidated Entity 2017	Notional $'000	Weighted average effective interest rate %	Carrying amount Asset $'000	Carrying amount Liability $'000	Line item in Statement of Financial position where hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness * $000
Foreign currency risk						
Cross-currency interest rate swaps - cash flow hedges	2,069,469	3.52	268,759	45,476	Derivative financial instruments - Cross-currency swaps;	(180,224)
Forward foreign exchange contracts-cash flow hedge	17,973	-	244	587	Derivative financial instruments - Forward foreign exchange contracts;	(351)
Interest rate risk						
AUD - interest rate swap contracts - cash flow hedges	3,775,000	2.39	14,042	17,437	Derivative financial instruments - Interest rate swaps;	(27,584)
Foreign Currency - Cross-currency interest rate swaps - fair value hedges	2,069,469	3.52	15,201	32,679	Derivative financial instruments - Cross-currency swaps;	(1,525)
2016						
Foreign currency risk						
Cross-currency interest rate swaps - cash flow hedges	1,565,058	3.52	378,957	(24,550)	Derivative financial instruments - Cross-currency swaps;	(81,558)
Forward foreign exchange contracts-cash flow hedge	11,585	-	200	192	Derivative financial instruments - Forward foreign exchange contracts;	(316)
Interest rate risk						
AUD - interest rate swap contracts - cash flow hedges	3,700,000	2.35	25,743	1,555	Derivative financial instruments - Interest rate swaps;	35,682
Foreign Currency - Cross-currency interest rate swaps - fair value hedges	1,565,058	3.52	35,684	51,638	Derivative financial instruments - Cross-currency swaps;	(57,896)

* The change in fair value ignores any cash payments during the period

8 Financial risk management (continued)

(f) Hedging (continued)

Fair value hedges
The objective of our fair value hedging is to convert fixed interest rate borrowings to floating interest rate borrowings.

We enter into cross-currency swaps to mitigate our exposure to changes in the fair value of our long-term offshore borrowings. Changes in the fair value of the hedging instrument, changes in the fair value of the hedging instrument and changes in the fair value of the hedged item that is attributable to the hedged risk ('fair value hedge adjustment') are recognised in Profit or Loss. Ineffectiveness reflects the extent to which the fair value movements do not offset and is primarily driven by movements in credit of the hedging instrument.
AASB 9 allows a component of the group's borrowing margin associated with cross-currency swaps ("foreign currency basis spread") to be deferred in equity. This component is included in interest on borrowings in the Profit or Loss over the remaining maturity of the borrowing.

Our fair value hedges have an economic relationship on the basis that the critical terms of the hedging instrument and hedged item (including face value, cash flows and maturity date) are aligned. The relationship between the hedged risk and the corresponding value of the hedging derivatives results in a hedge ratio of one.

The cumulative amount of fair value hedge adjustments which are included in the carrying amount of our borrowings in the Statement of Financial Position is shown below:

	Consolidated	
	2017	2016
	$'000	$'000
Fixed rate instruments		
Face value as at 31 December	**2,312,877**	1,975,737
Unamortised discounts/premiums	**(4,251)**	(4,767)
Amortised cost	**2,308,626**	1,970,969
Cumulative fair value hedge adjustments	**(18,068)**	(10,508)
Carrying amount	**2,290,558**	1,960,461

	Consolidated	
	2017	2016
	$'000	$'000
Change in value of hedged item during year	**(7,560)**	(54,714)

For fixed rate instruments, face value represents the face value in the underlying currency converted at the spot exchange rate as at reporting date. Revaluation impacts since inception of the borrowings due to foreign exchange movements are reflected in the amortised cost balance.

8 Financial risk management (continued)

(f) Hedging (continued)

Cash flow hedges
The objective of our cash flow hedging is to hedge the exposure arising from variability in future interest and foreign currency cash flows arising from borrowings that bear interest at variable rates, or are denominated in foreign currency. Cash flow hedging is also used to mitigate the foreign currency exposure arising from anticipated future transactions.

We enter into interest rate swaps and cross-currency swaps as hedges of future cash flows arising from our borrowings. Ineffectiveness is recognised in the Profit or Loss if the change in the fair value of the hedging instrument exceeds the change in fair value of the underlying borrowing. The portion of fair value movement qualifying as effective movement is recognised in the cash flow hedge reserve in equity.

All our cash flow hedges are in effective hedge relationships on the basis that the critical terms of the hedging instrument and hedged item are aligned (including face values, cash flows and currency). During the year, there has been no material ineffectiveness attributable to our cash flow hedges.

8 Financial risk management (continued)

(f) Hedging (continued)

The following table discloses amounts related to items designated as hedged items:

Consolidated Entity 2017	Carrying amount of the hedged item Asset $'000	Carrying amount of the hedged item Liability $'000	Accumulated amount of fair value hedge adjustment on the hedged item included in carrying amount of hedged item $'000	Line item in Statement of financial position in which hedged item is included	Change in value used for calculating hedge ineffectiveness $'000	Cash flow hedge reserve $'000
Foreign currency risk						
Cross-currency interest rate swaps - cash flow hedges	-	2,311,387	-	Borrowings - US / HK Senior notes	(180,224)	(18,618)
Forward foreign exchange contracts - cash flow hedges	244	587	-	Property, plant & equipment / Inventory	(351)	(343)
Interest rate risk						
AUD - interest rate swap contracts - cash flow hedges	-	3,998,850	-	Borrowings - Medium term notes; Borrowings - Bank loans	(27,584)	(3,395)
Cross-currency interest rate swaps - fair value hedges	-	(18,068)	(18,068)	Borrowings - US / HK Senior notes	(1,525)	-

8 Financial risk management (continued)

(f) Hedging (continued)

2016	Carrying amount of the hedged item Asset $'000	Carrying amount of the hedged item Liability $'000	Accumulated amount of fair value hedge adjustment on the hedged item included in carrying amount of hedged item $'000	Line item in Statement of financial position in which hedged item is included	Change in value used for calculating hedge ineffectiveness $'000	Cash flow hedge reserve $'000
Foreign currency risk						
Cross-currency interest rate swaps - cash flow hedges	-	1,973,752	-	Borrowings - US Senior notes	(81,558)	(5,186)
Forward foreign exchange contracts - cash flow hedges	200	192	-	Property, plant & equipment / Inventory	(316)	8
Interest rate risk						
AUD - interest rate swap contracts - cash flow hedges	-	4,098,186	-	Borrowings - Medium term notes; Borrowings - Bank loans	35,682	24,189
Cross-currency interest rate swaps - fair value hedges	-	(10,508)	(10,508)	Borrowings - US Senior notes	(57,896)	-

8 Financial risk management (continued)

(f) Hedging (continued)

The following table discloses amounts that have affected the statement of comprehensive income as a result of applying hedge accounting:

Consolidated Entity 2017	Separate line item recognised in Profit or Loss as a result of a hedge of a net position $'000	Change in the value of the hedging instrument recognised in other comprehensive income $'000	Hedge ineffectiveness recognised in Profit or Loss $'000	Line item in Profit or Loss (that includes hedge ineffectiveness)	Amount reclassified from the cash flow hedge reserve to Profit or Loss $'000	Line item affected in Profit or Loss due to the reclassification
Foreign currency risk						
Cross-currency interest rate swaps - cash flow hedges	n/a	(13,431)	(154)	Other gains / (losses)	172,624	Other gains / (losses)
Forward foreign exchange contracts - cash flow hedges	n/a	(351)	-	n/a	8	Other gains / (losses)
Interest rate risk						
AUD interest rate swap contracts - cash flow hedges	n/a	(4,464)	-	n/a	(23,120)	Finance expenses

	Ineffectiveness recognised in Profit or Loss $'000	Line item in Profit or Loss (that includes hedge ineffectiveness)
Interest rate risk		
Foreign Currency - Cross-currency interest rate swaps - fair value hedges	6,035	Other gains / (losses)

Note: $8 thousand is transferred to capital expenditure

8 Financial risk management (continued)

(f) Hedging (continued)

2016	Separate line item recognised in Profit or Loss as a result of a hedge of a net position $'000	Change in the value of the hedging instrument recognised in other comprehensive income $'000	Hedge ineffectiveness recognised in Profit or Loss $'000	Line item in Profit or Loss (that includes hedge ineffectiveness)	Change in amount reclassified from the cash flow hedge reserve to Profit or Loss during the year $'000	Line item affected in Profit or Loss due to the reclassification
Foreign currency risk						
Cross-currency interest rate swaps - cash flow hedges	n/a	(78,221)	(156)	Other gains / (losses)	65,227	Other gains / (losses)
Forward foreign exchange contracts - cash flow hedges	n/a	(639)	-	n/a	323	Other gains / (losses)
Interest rate risk						
AUD interest rate swap contracts - cash flow hedges	n/a	58,278	-	n/a	(22,596)	Finance expenses

	Ineffectiveness recognised in Profit or Loss $'000	Line item in Profit or Loss (that includes hedge ineffectiveness)
Interest rate risk		
Foreign Currency - Cross-currency interest rate swaps - fair value hedges	(3,182)	Other gains / (losses)

Note: $323 thousand is transferred to capital expenditure

8 Financial risk management (continued)

(f) Hedging (continued)

The following table details the expected transfer of the cash flow hedge reserve to the profit and loss:

Consolidated 2017	0 to 1 Year $'000	1 to 2 Years $'000	2 to 5 Years $'000	Over 5 Years $'000	**Total $'000**
Transferred to profit & loss	(11,118)	(8,587)	(679)	4,974	**(15,410)**
Transferred to capital expenditure	(92)	(78)	(70)	-	**(240)**
	(11,210)	(8,665)	(749)	4,974	**(15,650)**

Consolidated 2016	0 to 1 Year $'000	1 to 2 Years $'000	2 to 5 Years $'000	Over 5 Years $'000	**Total $'000**
Transferred to profit & loss	(10,768)	(6,432)	11,555	18,947	**13,302**
Transferred to capital expenditure	38	(22)	(10)	-	**6**
	(10,730)	(6,454)	11,545	18,947	**13,308**

9 Capital management

The Consolidated Entity's objective in managing capital is to safeguard the consolidated entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

In order to maintain or adjust its capital structure, the consolidated entity may adjust the level of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Consolidated Entity is monitored through the gearing ratio. This ratio is defined as net senior debt divided by total capital, where net senior debt is defined as total senior interest bearing financial assets and financial liabilities (including derivative financial instruments) less cash and cash equivalents and total capital, where total capital is defined as equity shown in the consolidated balance sheet plus net debt.

During the period and year ended 31 December 2017 and 31 December 2016, the consolidated entity's strategy was to maintain the gearing ratio at less than 75% in order to secure access to finance at a reasonable cost.

The Consolidated Entity's risk management and compliance committee reviews the capital structure on a semi annual basis.

The Consolidated Entity is not subject to any externally imposed capital requirements.

(a) Dividends

(i) Ordinary shares

	Consolidated	
	2017	2016
	$'000	$'000
Dividends declared for the year ended 31 December 2017 of $937,367 per fully paid share (2016: $590,000 per ordinary share)	**468,684**	295,000

The Consolidated Entity is part of a tax consolidated group and accordingly does not pay tax or have franking credits in its own right.

10 Interests in Subsidiaries

(a) Subsidiaries

Details of the Consolidated Entity's subsidiaries at 31 December 2017 are set out below.

Name of entity	Place of business/ country of incorporation	Principal activities	Ownership interest held by the group 2017 %	2016 %
CHED Services Pty Ltd	Australia	Back office services	**100.0**	100.0
Powercor Network Services Pty Ltd	Australia	Construction & Maintenance	**100.0**	100.0
Powercor Australia Ltd	Australia	Electricity Distribution	**100.0**	100.0
CitiPower Pty Ltd	Australia	Trustee	**100.0**	100.0
The CitiPower Trust	Australia	Electricity Distribution	**100.0**	100.0
Energy Solutions Pty Ltd	Australia	Construction & Maintenance	**100.0**	100.0
NG Group Holdings Pty Ltd	Australia	Holding company	**50.0**	50.0
NG Energy Pty Ltd	Australia	Solar installations	**50.0**	50.0
NG Maintenance Pty Ltd	Australia	Electricity services	**50.0**	50.0
Next Generation Electrical Group Pty Ltd	Australia	Electricity services	**50.0**	50.0
Next Generation Learning Pty Ltd	Australia	Dormant	**50.0**	50.0
ENEA Australia Pty Ltd	Australia	Consulting	**49.0**	49.0

All wholly owned entities are members of the tax-consolidated group, of which Victoria Power Networks Pty Ltd is the head entity.

There are no significant restrictions applied to members of the Consolidated Entity.

(i) Subsidiaries accounting policies

Subsidiaries are all entities (including structured entities) over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Consolidated Entity (refer to note 20(b))

Intercompany transactions, balances and unrealised gains on transactions between Consolidated Entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

11 Contingencies

The Consolidated Entity does not have any contingent assets or liabilities at 31 December 2017 (2016: nil).

12 Commitments

(a) Capital expenditure commitments

Significant capital expenditure contracted for at the end of the reporting year but not recognised as liabilities is as follows:

	Consolidated	
	2017	2016
	$'000	$'000
Property, plant and equipment		
Payable:		
Not longer than one year	**165,003**	166,449
Longer than one year but not later than five years	**30,274**	14,279
	195,277	180,728

(b) Expenditure commitments

	Consolidated	
	2017	2016
	$'000	$'000
Expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Within one year	**15,752**	17,317
	15,752	17,317

(c) Operating lease commitments

Operating leases relate primarily to property leases with lease terms between 3 and 50 years where the Consolidated Entity does not have an option to purchase properties at the expiry of the lease period.

	Consolidated	
	2017	2016
	$'000	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Not longer than one year	**8,591**	8,294
Longer than one year but not later than five years	**35,843**	34,730
Longer than five years	**81,123**	92,615
	125,557	135,639

13 Related party transactions

(a) Shareholders

51% of Victoria Power Networks Pty Ltd shares are held by Hong Kong listed groups, Cheung Kong Infrastructure and Power Assets Holdings. The remaining 49% of the shares are held by Spark Infrastructure, an Australian listed entity.

(b) Parent entity

The parent entity of the Consolidated Entity is Victoria Power Networks Pty Ltd.

(c) Directors' loans

There were no loans in existence at balance date made, guaranteed or secured to Directors of the Company, Director related entities, their spouses, relatives, or relatives of spouses.

(d) Subsidiaries

Interests in subsidiaries are set out in note 10 of the financial statements.

(e) Directors' equity holdings

There were no Director equity holdings in existence at the balance date.

(f) Other transactions with Directors or entities related to them

No Director-related entity has declared an interest in a contract, or proposed contract, during the year ended 31 December 2017 with the Company or any entities in the Consolidated Entity, except in instances where terms are no more favourable than those expected under normal commercial arrangements, as is the case with the normal supply of electricity.

(g) Key management personnel

Key management personnel comprises General Managers and the Chief Executive Officer of the Company. The compensation of the key management personnel of the Consolidated Entity is set out below:

	Primary		**Post - employment**	
	2017	2016	**2017**	**2016**
	$	$	**$**	**$**
Cash salary and fees	**4,447,496**	4,226,468	**-**	**-**
Cash bonus	**2,403,978**	2,602,229	**-**	**-**
Non monetary benefits	**239,223**	216,619	**-**	**-**
Superannuation	**-**	-	**243,990**	**237,281**
Retirement benefits*	**-**	-	**1,221,997**	**-**
	7,090,697	7,045,316	**1,465,987**	**237,281**

The remuneration of the General Managers and the Chief Executive Officer is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

*Retirement benefits reflect amounts paid to Executives who have exited the business in the year.

13 Related party transactions (continued)

(h) Transactions with other related parties

During the year, the Consolidated Entity entered into the following transactions with other related parties on normal terms and conditions:

Interest was charged to the Consolidated Entity on subordinated loans from Shareholders. The period end balances are disclosed in note 4(e) and interest charged during the year is disclosed in note 2(b).

CHED Services Pty Ltd has Service Level Agreements with United Energy, Wellington Electricity, SA Power Networks, International Infrastructure Services Company - Australian Branch and International Infrastructure Services Company - New Zealand Branch to provide IT systems, support and management services.

Powercor Network Services Pty Ltd provides services in relation to design, project management, supply chain solutions, construction and maintenance to Transmission Operations Australia and Transmission Operations Australia 2.

Amounts due and receivable from other related parties are disclosed in note 4(b) to the financial statements.

Amounts due and payable to other related parties are disclosed in note 4(c) to the financial statements.

13 Related party transactions (continued)

(h) Transactions with other related parties (continued)

The following table summarises trading transactions with related parties that are not members of the Consolidated Entity:

	Sales of goods and services		Purchase of goods and services	
Consolidated Entity	**31 December 2017 $'000**	31 December 2016 $'000	**31 December 2017 $'000**	31 December 2016 $'000
SA Power Networks	**21,283**	16,127	**779**	50
Wellington Electricity	**118**	378	**-**	-
International Infrastructure Services Company - NZ Branch	**2,423**	2,400	**-**	-
Transmission Operations Australia	**473**	411	**-**	-
International Infrastructure Services Company - Australian Branch	**233**	361	**57**	19
Australian Energy Operations Pty Ltd	**10,483**	-	**-**	-
Transmission Operations Australia 2	**1,631**	24,558	**-**	-
United Energy Distribution Holdings Pty Ltd	**2,800**	-	**-**	-
	39,444	44,235	**836**	69

The following balances were outstanding at the end of the year:

	Amounts owed by related parties (excluding GST)		Amounts owed to related parties (excluding GST)	
Consolidated Entity	**31 December 2017 $'000**	31 December 2016 $'000	**31 December 2017 $'000**	31 December 2016 $'000
SA Power Networks	**3,935**	4,376	**86**	46
Wellington Electricity	**22**	543	**-**	-
Transmission Operations Australia	**32**	-	**-**	-
Transmission Operations Australia 2	**-**	-	**-**	1,147
International Infrastructure Services Company - NZ Branch	**200**	200	**-**	-
Australian Energy Operations Pty Ltd	**-**	-	**25**	-
International Infrastructure Services Company - Australian Branch	**20**	20	**18**	4
United Energy Distribution Holdings Pty Ltd	**2,800**	-	**-**	-
	7,009	5,139	**129**	1,197

No provisions for doubtful debts have been raised against related party balances.

14 Remuneration of auditors

Fees for services rendered by the Company's auditor in relation to the statutory audit are borne by a related party.

The auditor of Victoria Power Networks (Finance) Pty Ltd is Deloitte Touche Tohmatsu.

15 Events occurring after the reporting period

There has been no matter or circumstance that has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in subsequent financial years.

16 Parent entity financial information

(a) Summary financial information

The individual Financial Statements for the parent entity show the following aggregate amounts:

	2017 $'000	2016 $'000
Balance sheet		
Current assets	**126,148**	11,342
Non-current assets	**5,846,890**	6,052,705
Total assets	**5,973,038**	6,064,047
Current liabilities	**1,410,596**	1,422,257
Non-current liabilities	**3,364,555**	3,249,654
Total liabilities	**4,775,151**	4,671,911
Net assets	**1,197,887**	1,392,136
Shareholders' equity		
Issued capital	**1,639,196**	1,639,196
Reserves		
Hedging reserve - cash flow hedges	**(12)**	16,503
Financial equity / distribution reserve	**(564,105)**	(564,105)
Retained earnings	**122,808**	300,542
Total equity	**1,197,887**	1,392,136
Profit or loss for the year	**290,950**	(8,303)
Total comprehensive income	**274,435**	7,421

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2017 or 31 December 2016.

(c) Determining the parent entity financial information

(i) Net current asset deficiency

As at 31 December 2017, the Company's current liabilities exceed its current assets by $1,284,448 thousand (2016: $1,410,915 thousand).

Notwithstanding the working capital deficiency, the Directors believe that the going concern assumption is appropriate and that the Company will be able to pay its debts as and when they fall due given:
- The Company has access to $383,000 thousand in unused finance facilities as at 31 December 2017;
- The Company has a long history of refinancing expiring debt facilities.
- The Company is able to instruct subsidiaries to distribute cash upwards if required

17 Critical accounting estimates and judgements

In the application of A-IFRS the Directors are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. 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. 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that the Directors have made in the process of applying the Consolidated Entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Discount Rate applied to Employee Entitlements and Defined Benefits

As discussed in note 5(g) long term employee benefits balances and defined benefit plan obligations are discounted to present value. The discount rate is determined by reference to the market yield on high quality corporate bonds from observable yield curves.

(ii) Determining the Cash Generating Units

Management have concluded that there are two cash generating units within the consolidated entity being the distribution licenses and property, plant and equipment, Powercor and CitiPower. Both Powercor and CitiPower hold a license to distribute and supply electricity in Victoria under the Electricity Industry Act 2000. In addition to the right to distribute, the distribution licences also convey rights and obligations that Powercor and CitiPower must follow.

(iii) Fair value of customer contributions and gifted assets

With effect from 1 January 2017 the Consolidated Entity changed its basis of estimating the fair value of cash and non-cash customer contributions from 'depreciated replacement cost' to estimating the net present value of the future cashflows expected to be derived from the regulatory asset base ('RAB') as a result of the specific extension or modification to the network, an 'income approach' as described in Note 1(a)(iv) and 1(a)(v). This change better reflects the value for cash and non-cash customer contributions included in the RAB, on which future regulatory returns are derived.

(b) Critical accounting estimates and assumptions

The following are key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year.

(i) Revenue recognition

As disclosed in note 1 there is a certain level of estimation involved in the measurement of the Consolidated Entity's revenue, which includes:
- In relation to distribution revenue an estimation of the amount of electricity consumed but not billed at period end,
- In relation to services provided under contract an estimation of stage of completion,
- In relation to customer contributions an estimate of the stage of completion of the customer project, and the fair value of contributed non-current assets and
- In relation to "pass-through" type revenue an estimation of timing of cash-flows and the net present value of such cashflows.

As the basis of estimation for distribution revenue is based on actual electricity consumption and in the case of pass through revenue the actual and accrued cost incurred, the Directors do not envisage significant uncertainty risk with respect to amounts recorded in relation to applying the revenue recognition accounting policies.

17 Critical accounting estimates and judgements (continued)

(b) Critical accounting estimates and assumptions (continued)

(ii) Impairment of intangible assets

Determining whether distribution licence assets are impaired require an estimation of the fair value less costs of disposal of the cash-generating units to which the licence belongs. The fair value less costs of disposal calculation required the Directors to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

(iii) Valuation of financial instruments

Some of the Consolidated Entity's assets and liabilities are measured at fair value as described in note 4(f). To determine the fair value of financial instruments, the Consolidated Entity uses in-house expertise to determine fair value, based on Level 2 inputs of market observable data such as counterparty credit rating. The Directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(iv) Useful lives of property, plant and equipment and intangible assets

Details regarding the estimated useful lives of property, plant and equipment are contained in 5(d) Details regarding the estimated useful lives of intangible assets are contained in 5(e) .There were no significant changes in these estimates during the year.

(v) Income taxes

Assumptions are made about the application of income tax legislation regarding the deductibility of certain costs for tax purposes, including:

- The tax treatment of assets transferred from customers for no consideration

The Company is currently in dispute with the ATO on this matter (refer to note 5(f)) and is recognising a deferred tax asset relating to carry forward income tax losses which is impacted by these matters. The outcome may affect the quantification and utilisation of tax losses and carrying value of deferred tax liabilities.

Notwithstanding the above qualification, it is the Directors' view that the carry forward income tax losses are recoverable against future taxable profits.

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in subsidiaries of the Company in relation to the application of tax consolidation regime as it applies to the Consolidated Entity. These outcomes affect factors such as the taxation treatment of transactions between members of the Consolidated Entity.

(vi) Employee Benefits

The Consolidated Entity relies on valuations performed by suitably qualified actuaries in recognising the defined benefit superannuation plan accounting. Note 5(h) provides disclosures regarding the outcomes of such valuations and the key assumptions used.

(vii) Environment Provision

The Consolidated Entity relies on valuations performed by Environmental Specialists to estimate the clean up cost of EPA notices.

18 General Information

Victoria Power Networks (Finance) Pty Ltd is a proprietary company (the 'Company'), incorporated and operating in Australia. The Company and its subsidiaries listed in note are referred to as the 'Consolidated Entity'.

Registered Office and Principal Place of Business

Level 8
40 Market Street
MELBOURNE VIC 3000

19 Application of new and revised accounting standards

Standards and Interpretations adopted in the current period
The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

- AASB 2016-1 Amendments to Australian Accounting Standard - Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016-2 Amendments to Australian Accounting Standard - Disclosure Initiative: Amendments to AASB107

The Australian Accounting Standards Board has issued other standards and interpretations which are now effective. These standards are not relevant to the operations of the Consolidated Entity.

Standards and Interpretations in issue not yet adopted
At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The Australian Accounting Standards Board has issued other standards and interpretations not yet effective. These standards are not relevant to the operations of the Consolidated Entity.

19 Application of new and revised accounting standards (continued)

Standards and Interpretations in issue not yet adopted (continued)

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective Date of AASB 15' and AASB 2016-3 'Amendments to Australian Accounting Standard - Clarifications to AASB 15'	1 January 2018	31 December 2018
AASB 2014-1 'Amendments to Australian Accounting Standard: Part E: Financial Instruments'	1 January 2018	31 December 2018
AASB 2014-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)'	1 January 2018	31 December 2018
AASB 2014-8 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)'	1 January 2018	31 December 2018
AASB 16 'Leases'	1 January 2019	31 December 2019

Of the above standards and interpretations in issue not yet effective the following are expected to result in changes in recognition or measurement.

AASB 15 establishes a single model for accounting for revenue arising from contracts with customers and supersedes the current revenue standards AASB 118 'Revenue' and AASB 111 'Construction Contracts'. Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied. As revenue is earned as services are performed, there is no significant change to revenue recognition and the introduction of this new standard will not have a material impact on the financial statements.

An assessment of the impact of the new standard is currently in progress. Based on a preliminary analysis of the impact of the new standard, it is currently expected that the adoption of AASB 15 will not have a material impact on the amounts reported and disclosures made in the Consolidated Entity's accounts.

AASB 9 (2014) introduces additional requirements in addition to the early adopted AASB 9 (2010), including a new expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component. It is envisaged that the application of the new standard will not have a material impact on recognition of impairment losses.

19 Application of new and revised accounting standards (continued)

AASB 16 primarily impacts the accounting for leases for a lessee by introducing non-financial assets and liabilities reflecting the committed lease terms. The Directors do not anticipate that this will have a material impact on profit however the the recognition of the non-financial asset and associated liability on the Statement of Financial Position will be material.

20 Summary of significant accounting policies

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Australians Accounting Interpretations. The financial statements comprise the consolidated financial statement of the Consolidated Entity. Compliance with Australian Accounting Standards ensures that the consolidated financial statements and notes of the Consolidated Entity and the Company comply with International Financial Reporting Standards ("IFRS").

For the purpose of preparing the consolidated financial statements, the Company is a for-profit entity.

The financial statements were authorised for issue by the Directors on 5 March 2018.

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for the assets.

The Consolidated Entity is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the financial statements, except where indicated, have been rounded off to the nearest thousand dollars.

Net current asset deficiency

As at 31 December 2017, the Consolidated Entity's current liabilities exceed its current assets by $1,319,406 thousand (2016: $1,598,990 thousand).

Notwithstanding the working capital deficiency, the Directors believe that the going concern assumption is appropriate and that the Consolidated Entity will be able to pay its debts as and when they fall due given:
- The Consolidated Entity has access to $383,000 thousand in unused finance facilities as at 31 December 2017;
- The Consolidated Entity has forecast to generate operating cash flows and profits in 2018;
- Included in current liabilities are $58,250 thousand employee entitlement provisions not expected to be called in 2018;
- The Consolidated Entity has a long history of refinancing expiring debt facilities.

20 Summary of significant accounting policies (continued)

Significant accounting policies

Accounting policies have been disclosed in respective notes to the financial statements as appropriate. The following other significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Impairment of tangible and intangibles assets

At each reporting date, the Consolidated Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets which have indefinite useful lives are tested for impairment at each reporting date and whenever there is an indication that the assets may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(b) 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 subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Consolidated Entity
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

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. The Consolidated Entity recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,

20 Summary of significant accounting policies (continued)

(b) Business combinations (continued)

- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

(c) Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated using the exchange rate at that date.

Exchange rate differences are brought to account in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise except that:

(i) exchange differences which related to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; and

(ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer note 8).

(d) Goods and Services Tax

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

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Statements of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

In the Directors' opinion:

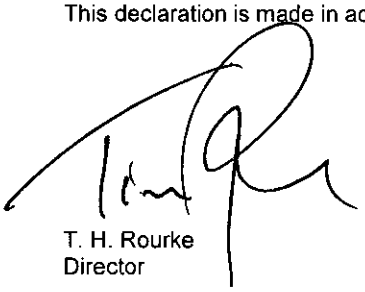
(a) the Financial Statements and notes set out on pages 4 to 87 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



T. H. Rourke
Director

Melbourne
5 March 2018

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Independent Auditor's Report
to the members of Victoria Power Networks (Finance) Pty Ltd

Opinion

We have audited the financial report of Victoria Power Networks (Finance) Pty Ltd (the "Company") and its subsidiaries (the "Group") which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the declaration by the Directors as set out on pages 4 to 88.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company and Group's financial position as at 31 December 2017 and of their financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of Victoria Power Networks (Finance) Pty Ltd**,** would be in the same terms if given to the Directors as at the time of this auditor's report.

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

Other Information

The Directors are responsible for the other information. The other information comprises the Directors Report included in the Group's annual report for the year ended 31 December 2017, 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 we do not express any form of assurance conclusion thereon.

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Member of Deloitte Touche Tohmatsu Limited

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, 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 of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and 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 has 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Deloitte.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



Samuel Vorwerg
Partner
Chartered Accountants
Melbourne, 5 March 2018

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