AusNet Services Holdings Pty Ltd
ACN 086 006 859

Financial Report

For the financial year ended 31 March 2016

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This financial report covers the consolidated entity consisting of AusNet Services Holdings Pty Ltd and its subsidiaries. The financial report is presented in Australian dollars.

AusNet Services Holdings Pty Ltd is a company limited by shares, incorporated and domiciled in Victoria, Australia. Its registered office and principal place of business is:

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

A description of the nature of AusNet Services Holdings Pty Ltd's operations and its principal activities is included in the Directors' report.

The financial report was authorised for issue by the Directors on 11 May 2016.

Introduction

The Directors of AusNet Services Holdings Pty Ltd (the Company) present their report on the general purpose financial report of the Company and consolidated entity (the Group) for the financial year ended 31 March 2016 (FY2016).

The immediate parent of the Company is AusNet Holdings (Partnership) Limited Partnership. The ultimate Australian parent of the Company is AusNet Services Ltd, a company incorporated in Australia, which is a listed entity trading as AusNet Services (also referred to as us, our and we).

Board of Directors

The persons listed below were Directors of the Company during the whole of the financial period and up to the date of this report unless otherwise noted.

Nino **Ficca** (Managing Director)

Adam **Newman**

Charles **Popple** (resigned 1 April 2016)

Susan **Taylor** (appointed 1 April 2016)

What we do

The principal activities of the Group are:

- **Electricity distribution** – delivery of electricity to over 690,000 customer connection points over 80,000 square kilometres in eastern Victoria including Melbourne's outer eastern suburbs;
- **Gas distribution** – delivery of natural gas to over 660,000 customer connection points over 60,000 square kilometres in central and western Victoria including some of Melbourne's western suburbs; and
- **Select Solutions** – the provision of specialist metering, asset intelligence and telecommunication solutions to the utility and infrastructure sectors.

These activities are conducted through the following main operating group companies:

- AusNet Electricity Services Pty Ltd;
- AusNet Gas Services Pty Ltd; and
- Select Solutions Group Pty Ltd.

Our Values

Our values are the foundation for how we achieve our business objectives:

We work safely

We do what's right

We're one team

We deliver

Our strategy

Since 2012, we have been working to a five-year corporate strategy, with a focus in 2016 to 'deliver the change' by leveraging the efficiency and growth initiatives during the previous two years.

Specifically, this year we have focused on delivering more value from the core network businesses and exploring growth opportunities.

We continue to operate in a dynamic environment, characterised by technological advancements, increasing regulatory scrutiny, along with changing roles and expectations between customer and supplier.

During the year, we refreshed our corporate strategy to respond with greater intensity to the increased pace of change in our operating environment with a new purpose to 'empower communities and their energy needs'.

At the highest level, our FY2017-2021 five-year strategy for delivering value is to leverage our core capabilities in networks, assets, high-value services and innovation to build a portfolio of high performing and sustainable regulated and contracted energy infrastructure businesses.

The strategy refresh drives a significant refocus and reprioritisation of effort to:

- ***lead network transformation*** and embrace change
- ***grow contracted energy infrastructure and services*** by leveraging our core capabilities
- ***drive efficiency and effectiveness*** throughout the portfolio to maximise value
- ***generate trust and respect*** with customers and partners to ***build our reputation*** with all stakeholders.

One of the core objectives of our strategy is to deliver sustainable returns to shareholders, underpinned by significant investment in a growing asset base and higher dividends. Our asset base for the core regulated network businesses provides significant and predictable long-term regulated cash flows, and we maintain prudent and sustainable financial settings, targeting an investment-grade credit rating, which enables us to successfully deliver on our strategy.

We are confident that we are well placed to deliver on this challenging strategy within the next five years.

Through our developing knowledge and expertise, re-energised and guided by our strategy and values, we are doing our job to the benefit of all our stakeholders.

Review of operations

This discussion and analysis is provided to assist readers in understanding the general-purpose financial report.

$M	FY2016	FY2015	Movement	%
Revenue	**1,269.6**	1,194.4	75.2	6.3
EBITDA	**717.5**	605.6	111.9	18.5
NPAT	**449.4**	103.6	345.8	n/m

The Group achieved a net profit after tax (NPAT) of $449.4 million, an increase of $345.8 million compared to the previous year.

The Group achieved earnings before interest, tax, depreciation and amortisation (EBITDA) for the year ended 31 March 2016 of $717.5 million, an increase of $111.9 million or 18.5 per cent over the previous corresponding year.

The Group's revenues were increased by 6.3 per cent to $1,269.6 million. The Group derives most of its earnings from two regulated energy network businesses, which include an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria.

A summary of the Group's revenues and results by operating segment for the financial year ended 31 March 2016 is set out below:

Electricity distribution business

	FY2016	FY2015	Movement	%
Segment revenue ($M)	**963.6**	879.6	84.0	9.5
Segment result – EBITDA ($M)	**575.9**	457.8	118.1	25.8
Volume (GWh)	**7,662**	7,361	301	4.1
Connections	**691,378**	679,213	12,165	1.8
Capital expenditure ($M)	**467.3**	486.9	(19.6)	(4.0)
Adjusted segment result ($M)[1]	**575.9**	490.3	85.6	17.4

1. Adjusted segment result excludes $32.5 million of AMI rebates for 31 March 2015. Adjusted segment result is a non-IFRS measure that has not been subject to audit or review.

The electricity distribution business has achieved significant year-on-year growth in EBITDA driven by a 9.5 per cent increase in revenues, low underlying cost growth and a number of one-off expenses that were incurred in the prior year.

The increase in revenue is due to a combination of regulated price increases for both electricity distribution and metering revenues, favourable weather conditions and new connections supporting a 4.1 per cent increase in volumes.

Electricity distribution use of system tariffs and metering tariffs were reset on 1 January 2016 based on the 2016-2020 Electricity Distribution Price Review (EDPR) Preliminary Decision published by the Australian Energy Regulator (AER). This reset saw a 5.7 per cent decline in distribution prices and a 42.9 per cent decline in metering revenues, thereby reducing the 2016 full-year growth rate when compared to the 18.5 per cent increase reported at the half year. Regulated revenue for our electricity distribution business (including metering) for the last three months of FY2016 was $40.2 million or 18.1 per cent lower than the same period last year.

The final decision for the 2016–2020 EDPR is expected to be released by the AER in late May 2016. Any changes to the Preliminary Decision will be adjusted in the 2017 calendar year tariffs. In addition, the AER's review of our expenditure under the Advanced Metering Infrastructure (AMI) Cost Recovery Order In Council (CROIC) for the 2014 and 2015 calendar years is expected to be completed by the end of December 2016, with any variations to also be adjusted in 2017.

Segment expenses include a number of unusual or one-off items in both FY2016 and FY2015:

- The prior year includes $60.6 million in metering charges relating to customer rebates ($32.5 million) and asset write-offs ($28.1 million); and
- The current year includes $10.0 million of costs relating to the 2014 bushfires at Yarram and Mickleham.

Review of operations (continued)

Excluding these items, operating expenses for our electricity distribution business increased $16.5 million or 4.5 per cent due to wage increases and higher short-term incentive payments, partially offset by a reduction in service level payments.

Capital expenditure was 4.0 per cent or $19.6 million lower than FY2015, despite a metering program spend of $103.8 million, an increase of $54.7 million on the prior year. This was due to a number of factors, including benefits from lower unit rates, lower customer demand for augmentation, and a number of capital efficiency measures. In addition, IT capital expenditure allocated to the electricity distribution business was $34.1 million lower due to the implementation of our enterprise-wide ERP solution.

Metering program update

The IT stabilisation works and rollout of a wireless mesh communications network under the metering program continues to track to plan. A major system upgrade was released on 11 April 2016 and the mesh deployment is on schedule. We expect to complete the technical work on our core systems by the end of calendar year 2016 and finalise the conversion of meters to remotely provide data to market by the end of FY2017.

Gas distribution business

	FY2016	FY2015	Movement	%
Segment revenue ($M)	**188.8**	187.3	1.5	0.8
Segment result – EBITDA ($M)	**136.7**	142.0	(5.3)	(3.7)
Volume (PJ)	**66.9**	64.2	2.7	4.2
Connections	**660,924**	647,536	13,388	2.1
Capital expenditure ($M)	**92.7**	99.0	(6.3)	(6.4)

The EBITDA reduction of $5.3 million is principally due to a $7.3 million reduction in customer contributions from the prior year. Removing this impact results in EBITDA growth of 1.4 per cent or $2.0 million.

Regulated revenues for gas distribution were $180.2 million or $6.1 million higher than the prior year. This was driven by a colder winter, partially offset by the removal of the carbon tax and lower weather-adjusted volumes.

Segment expenses increased by $6.8 million compared to prior year due to higher metering costs as well as a higher allocation of internal labour costs.

The reduction in capital expenditure has arisen from our mains renewal program (replacement of old cast iron and steel pipelines) primarily due to the achievement of lower contract costs.

Select Solutions business

	FY2016	FY2015	Movement	%
Segment revenue ($M)	**117.2**	127.5	(10.3)	(8.1)
Segment result – EBITDA ($M)	**4.9**	5.8	(0.9)	(15.5)

Select Solutions provides specialist metering, asset intelligence and telecommunication solutions. Select Solutions' customers are primarily businesses operating in the utility and essential infrastructure sectors such as electricity, water, gas, telecommunications and rail companies.

Select Solutions' revenue declined due to the negotiated cessation of cost pass-through gas meter procurement activity with a large customer from April 2015 ($22.0 million) offset by new contracts and growth in existing contracts.

EBITDA is consistent with the prior year despite the revenue decrease.

Financial position

The Group's total assets as at 31 March 2016 were $10,021.9 million comprising primarily property, plant and equipment of $5,692.0 million and non-current receivables of $2,396.2 million. Current receivables were $363.4 million, intangible assets were $497.4 million and cash was $440.2 million.

Current liabilities as at 31 March 2016 were $1,239.8 million comprising borrowings of $762.0 million, payables of $389.6 million, derivative financial instruments of $18.6 million and provisions of $69.6 million.

Non-current liabilities as at 31 March 2016 were $6,558.0 million comprising principally borrowings of $6,054.2 million, derivative financial instruments of $174.3 million and deferred tax liabilities of $144.5 million.

Capital management

Dividends

No dividends were paid and/or approved to shareholders during the financial year.

Debt raising

We manage our capital structure to ensure that we continue as a going concern while maximising the return to shareholders, as well as providing the flexibility to fund organic growth and other investment opportunities. An appropriate capital structure is also maintained to ensure an efficient cost of capital is available to us. Through our cash flows from operations and by maintaining an appropriate and prudent mix of debt and equity, we ensure that we achieve our targeted credit metrics that support an ‘A’ range credit rating.

The Company is utilised as AusNet Services’ common funding vehicle (CFV). Companies within AusNet Services have access to AusNet Services facilities through the CFV.

In line with AusNet Services’ Treasury Risk Policy, AusNet Services maintains a diversified debt portfolio by maturity and source. AusNet Services’ A- credit rating from Standard and Poor’s and an A3 rating from Moody’s Investor Services contributed to the successful completion of bond issues during the current financial year, being:

- an inaugural SGD 200 million 60-year hybrid security issue in the form of non-convertible subordinated notes to raise approximately $200 million in March 2016;
- a USD 375 million 60-year hybrid security issue in the form of non-convertible subordinated notes to raise approximately $505 million in March 2016; and
- a HKD 875 million 12-year bond issue to raise approximately $148 million in March 2016.

Both of the hybrid security issues have a first call date in September 2021. These issuances in March 2016 satisfy our refinancing requirements of the next twelve months, and supporting our ‘A’ range credit rating.

Material risks and uncertainties

We are committed to understanding and effectively managing risk to provide greater certainty and confidence for our shareholders, employees, customers, suppliers and communities in which the Group operates. The Group maintains oversight of our material business risks (financial and non-financial) at an enterprise-wide level, with regular reporting to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. We are cognisant of the following principal risks which may materially impact the execution and achievement of our business strategy and financial prospects.

Metering program risks

Cost recovery

The Victorian AMI CROIC is the framework under which we seek regulatory recovery for our historical spend on the metering program. The CROIC allows for the recovery of prudent costs included in the scope of implementing the program for the period up to 31 December 2015. Any spend incurred in a calendar year that is above the AER approved budget may be submitted to the AER for recovery via an Expenditure Excess Application. Beyond this date, regulated metering business capital and operating costs are recovered through the normal EDPR process.

The Expenditure Excess Application process was amended on 30 June 2015 and now requires the AER to release a draft determination and consult with the public, and permits the AER to have regard to the expenditure of a benchmark efficient entity over the entirety of, or any part of, the period the CROIC has been in force.

We are required to lodge our Expenditure Excess Application for calendar years 2014 and 2015 by 31 May 2016. The total amount of expenditure we incurred during this period that is subject to future regulatory approval, over and above the current AER approved budget, is $165.9 million. There is a risk that some or all of this additional expenditure may not be recovered. The AER has discretion whether or not to approve any such applications for recovery.

The metering program is on track to complete the work on core systems by the end of calendar year 2016. As with all large-scale and complex projects, there is a risk that the program may be delayed and further expenditure may be required or that the project will not remediate all issues with system performance.

Furthermore, the 2016-2020 EDPR Preliminary Decision only allows for $56.0 million of metering services capital expenditure. While the decision will not be finalised until 31 May 2016, there is a risk that we will be required to spend more than what is allowed in the final decision, and that some or all of this additional spend may not be recovered.

Electricity distribution licence

In July 2015 we made an administrative undertaking to the Essential Services Commission (ESC) setting out timeframes by which the compliance targets under the CROIC will be met. In accordance with this undertaking, we regularly report to the ESC on progress against the key milestones of the metering program. Our progress in achieving the compliance targets will be subject to independent audits in August 2016 and February 2017. There is a risk of further enforcement actions if we do not comply with the administrative undertaking.

If the ESC considered us to be in breach of our distribution licence obligations, it could seek to impose financial penalties on us. Further, if the ESC considered the breach sufficiently serious, it could ultimately lead to a loss of our electricity distribution licence if other enforcement actions available to the ESC had not satisfactorily rectified the breach.

Any such actions by the ESC could adversely affect our financial performance and position.

Material risks and uncertainties (continued)

Regulatory risks

Price determinations

The energy industry in Australia is highly regulated. The regulated component of our revenues (approximately 87.4 per cent of total revenues for the year ended 31 March 2016) will be subject to periodic pricing resets by the AER, where revenue or prices will be determined for each of the networks for the specified regulatory period. We have no ability or flexibility to charge more for regulated services than is provided for under the relevant AER determination or approved access arrangement without regulatory approval. Regulatory control periods are generally five years. The upcoming regulatory reset dates for our gas distribution network and electricity distribution network are 1 January 2018 and 1 January 2021, respectively, with the AER currently finalising the 2016-2020 EDPR determination.

Regulated charges do not necessarily reflect actual or projected operating costs, capital expenditure or the costs of capital. If the regulated charges set by the AER are lower than our costs, this may adversely affect our financial performance and position. In addition, we are exposed to cost changes within a regulatory control period and bear the risk of any shortfall in allowances for costs provided by regulatory determinations. Costs can change materially within a regulatory control period due to, among other things, changes in the costs of labour, equipment or capital inputs (including the cost of finance). In some circumstances where costs are outside our control, the regulatory regime offers cost pass-through protection. However, this is generally limited to costs incurred as a result of a change of exogenous circumstances (e.g. change in law, natural disaster or changes in occupational health and safety or environmental obligations) and the change in costs is often required to satisfy a materiality threshold. It is also possible to re-open a price determination, but this can only occur where the determination is affected by a material error or deficiency. As such, we face exposure to changes in our costs which could adversely affect our financial performance and position.

We carefully manage these risks in a number of ways. Prior to the commencement of a regulatory period, we develop a detailed plan of works to be undertaken and costs to be incurred as well as energy and maximum demand forecasts. Particular emphasis is placed on ensuring that we continue to maintain safe, resilient and reliable networks and that the costs to be incurred are efficient and prudent. This information is submitted to the AER as part of the determination process, and where appropriate the views of industry and other external experts are sought to include in the submission. During the regulatory period we continuously monitor and manage our costs through processes and systems which produce high quality data, efficiency, effectiveness and control.

Regulatory reform

Under the economic regulatory framework and recent rule changes, the AER now has a number of tools, such as capital expenditure sharing schemes and ex-post efficiency reviews, to incentivise network service providers to invest capital efficiently. The regulator can also apply the tools, in particular benchmarking, as it considers appropriate to each network business, having regard to an overall objective that only capital expenditure that is efficient should form part of the regulated asset base. Operating expenditure is particularly subject to benchmarking comparisons to set efficient levels going forward.

The AER released a new guideline for the determination of the rate of return on 17 December 2013. The assumptions and methodologies set out in the rate of return guideline may be subject to appeals to the Australian Competition Tribunal at the time of individual price reviews, which may negatively affect our financial performance and position. The rules changes require the AER to conduct a review of the rate of return guideline every three years.

The AER’s new rate of return guidelines apply to our electricity distribution reset applicable from 1 January 2016. Once established, the application of these guidelines may have an adverse impact on us in future regulatory determinations for our regulated gas distribution and electricity distribution networks.

The AER applied the new guidelines for the first time in the determinations for the New South Wales (NSW) state networks made in April 2015. The Australian Competition Tribunal (ACT) heard appeals by the NSW electricity distribution networks which, amongst other things, addressed a number of rate of return matters. On 26 February 2016, the ACT handed down its decision to have the determination remitted to the AER to reconsider and remake its decision with respect to gamma, the cost of debt and operational expenditure. As this process has not yet completed, conclusions cannot yet be drawn on the impact for our final EDPR determination.

Material risks and uncertainties (continued)

Regulatory risks (continued)

A number of other regulatory reviews are in progress or have recently been completed. The regulatory framework within which we operate continues to evolve. Generally speaking, regulators have been seeking to expand incentive and penalty regimes focused on network performance. Regulators are also seeking more information regarding operating and capital costs and are becoming more willing to make their own assessments about the requirements of regulated businesses in respect of matters such as asset augmentation, replacement, maintenance and operation.

These reviews and others could give rise to changes in the regulatory and statutory framework that could in time affect our revenues and could have a negative impact on net profit after tax and cash flows.

On 26 November 2015 the Australian Energy Market Commission (AEMC) published its final determination and final rule on expanding competition in metering and related services (Power of Choice). The AEMC's rule does not distinguish Victoria from other jurisdictions in respect of roles for metering service provision once the new framework commences. It proposed that network service providers engaging in the provision of meters and related services be ring-fenced from the regulated network business. We understand the Victorian government is considering how the new framework should be accommodated in Victoria to realise the full benefits of the metering infrastructure that has already been established. As such, the impact of Power of Choice on us remains uncertain.

In addition, the implementation of Power of Choice will require us to invest in new systems and processes, and make significant changes to existing systems. There is a risk that we will not recover some or all of the expenditure associated with implementing these potentially complex changes.

Information and communication technology risks

Customers' needs for higher levels of reliability and the reduction in the cost of digital technology have resulted in a greater role for ICT in the enablement, management and operations of utility networks. An example of this greater role is the implementation of smart meters in the electricity distribution business and other 'Smart Network' technology to improve electricity supply reliability. This increased focus on the role ICT plays in the management and operations of utility networks will require the introduction of new digital technology platforms. In the event there is any significant delay in the development of such new technology, this may negatively impact our revenue or require unforeseen capital investment to replace obsolete technology.

In addition, as with all new business solutions, there are risks associated with solution design, implementation, budgeting, planning and integration and future maintenance, upgrades and support. The crystallisation of any such risks could adversely impact the effectiveness and cost of such a solution and business continuity.

To mitigate these risks, we will strive for whole of business digital enablement. We have established a centralised architecture, delivery and governance capability to ensure technology needs are delivered successfully through an architecturally-led approach with appropriate governance applied.

Our financial performance and position may also be adversely affected by the requirements for greater ICT investment if the AER does not recognise these increased costs.

Network risks

Our energy distribution networks and information technology systems are vulnerable to human error in operation, equipment failure, natural disasters (such as bushfires, severe weather, floods and earthquakes), sabotage, terrorist attacks or other events which can cause service interruptions to customers, network failures, breakdowns or unplanned outages. Certain events may occur that may affect electricity distribution lines or gas mains in a manner that would disrupt the supply of electricity or gas. Failures in our equipment may cause supply interruptions or physical damage.

Any service disruption may cause loss or damage to customers, who may seek to recover damages from AusNet Services, and this could harm our business and reputation. Our emergency response, crisis management and business continuity management system, known as Strategic Plan for the Integration of Response and Contingency Systems, is the approved methodology to guide response and recovery activities. However, it may not be able to effectively protect our business and operations from these events.

We are also exposed to the cost of replacing faulty equipment. On rare occasions, faults in plant items are discovered only after the item has been installed within a network, requiring a large scale replacement program. Only some such incidents are covered by plant warranties and in some instances these warranties may only be partial. Additionally, incidents in our zone substations and terminal stations have property cover to insure against failure, but incidents outside the boundaries of our zone substations and terminal stations are self-insured. Any forced replacement program, particularly if not insured or covered by warranties, could be costly and adversely affect our financial performance and position.

Material risks and uncertainties (continued)

Funding and market risks

We rely on access to financial markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows. Our access to financial markets could be adversely impacted by various factors, such as a material adverse change in our business or a reduction in our credit rating. The inability to raise capital on favourable terms, particularly during times of uncertainty in the financial markets, could impact our ability to sustain and grow our businesses, which are capital intensive, and would likely increase our capital costs.

Furthermore, we have a large amount of debt, with a net debt to Regulated and Contracted Asset Base ratio at 31 March 2016 of 67.2 per cent. The degree to which we may be leveraged in the future could affect our ability to service debt and other obligations, to pay dividends to shareholders, to make capital investments, to take advantage of certain business opportunities, to respond to competitive pressures or to obtain additional financing. In addition, we are exposed to a number of market risks associated with this debt, including interest rate and foreign currency risk.

We effectively manage these risks in accordance with our Treasury Risk Policy, which is approved by the Board and reviewed at least annually. Under this policy, we aim to have a diverse funding mix in terms of source and tenure and proactively monitor and manage our credit metrics, in order to maintain an ‘A’ range credit rating and ensure continued access to various markets and to limit the funding requirement for any given year. In addition, through the use of derivative financial instruments we aim to hedge 90 to 100 per cent of our interest rate risk.

Introduction to the remuneration report

The remuneration report for the year ended 31 March 2016 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (Cth) and its regulations. This information has been audited as required by section 308(3C) of the *Corporations Act*.

The remuneration report details the remuneration arrangements for Key Management Personnel (KMP). KMP are those persons who have authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director of the parent company.

The Directors and other KMP of the Group are engaged to provide services to the AusNet Services Group and are not exclusive to any particular entity within AusNet Services. Accordingly, this report includes information that is common to AusNet Services Holdings Pty Ltd and AusNet Services Ltd. The remuneration amounts reported represent the total remuneration received by KMP during the year for services to the AusNet Services Ltd, and we have not apportioned between particular entities within the AusNet Services Group.

Details of key management personnel

The persons listed below were Directors of the Group for the whole of the financial year and up to the date of this report unless otherwise noted. There have been no additional appointments or resignations of Directors throughout the reporting period.

Name	Position
Nino **Ficca**	Managing Director
Adam **Newman**	Director (Chief Financial Officer)
Charles **Popple**[1]	Director (resigned effective 1 April 2016)

1. Susan Taylor will succeed Mr Popple as Director from 1 April 2016.

The persons listed below were executive KMP of the Group during the financial year ended 31 March 2016.

Name	Position
Nino **Ficca**	Managing Director
Adam **Newman**	Director (Chief Financial Officer)
John **Azaris**	General Manager, Service Delivery
Chad **Hymas**	General Manager, Strategy & Business Development
John **Kelso**	General Manager, Select Solutions
Alistair **Parker**	General Manager, Asset Management
Mario **Tieppo**	Chief Information Officer

Principles used to determine the nature and amount of remuneration

Directors

The Directors of the Company were remunerated as executives of the AusNet Services Ltd Group (which includes, but is not limited to, the Group) and received no remuneration in respect of their services to the Company as Directors.

AusNet Services Ltd performance

Our executive remuneration is directly linked to the performance of AusNet Services Ltd across a range of measures. The Short-Term Incentive (STI) is focussed on achieving operational targets and short-term profitability and the Long-Term Incentive (LTI) is focussed on achieving long-term growth and retaining talented executives.

The table below shows AusNet Services Ltd consolidated operating revenue and net profit after tax for the current reporting period and previous years and the effect of our performance on shareholder value.

	FY2012	FY2013	FY2014	FY2015	**FY2016**
Revenue	$1,535.4m	$1,639.5m	$1,799.4m	$1,833.9m	**$1,919.0m**
Profit for the year	$255.0m	$273.5m	$178.3m[1]	$22.6m[2]	**$489.3m**[3]
Closing share price as at 31 March	$1.075	$1.195	$1.310	$1.460	**$1.490**
Dividends in respect of financial year (cents per share)	8.00	8.20	8.36	8.36	**8.53**

1. Profit includes a net charge of $86.7 million for the amount potentially payable in respect of the Section 163AA dispute, $50.0 million payable for the termination of the Management Services Agreement (MSA) and $7.7 million in restructuring costs associated with the Termination Deed.
2. Profit includes the recognition of $142.6 million in income tax expense for the settlement with the Australian Taxation Office (ATO) in relation to the intra-group financing audit, the recognition of $84.1 million net exposure in relation to the intellectual property tax dispute with the ATO and the recognition of a provision for Advanced Metering Infrastructure (AMI) customer rebates of $22.8 million (after tax).
3. Profit includes one-off tax benefits of $163.1 million associated with our corporate restructure ($135.0 million) and settlement of the IP dispute with the ATO ($28.1 million).

FY2016 remuneration summary

Our improved financial performance during FY2016 has increased overall remuneration outcomes for executive KMP through higher STI and LTI payments.

Fixed remuneration	**Fixed Remuneration increases** Overall, executive KMP fixed remuneration increases ranged between 3.0 per cent and 4.5 per cent effective 1 April 2015. No further adjustments to fixed remuneration were made in the reporting period.
Managing Director remuneration	**Changes in Managing Director's Remuneration** The Managing Director's fixed remuneration increased by 4.0 per cent to $1,086,800 effective 1 April 2015. The Managing Director's FY2016 STI performance resulted in a 57.8 per cent STI payment representing 115.7 per cent of his overall target STI. In addition, the Managing Director's 2013 LTIP award vested at 104.9 per cent which also equates to 104.9 per cent of his overall LTI target. Total remuneration levels for the Managing Director thus increased from $1.695 million to $2.664 million.
Short-term incentive	**Increased STI payments** The FY2016 STI corporate scorecard achieved 127.1 per cent of target performance, up from 56.2 per cent in FY2015. The FY2016 Select Solutions scorecard (applicable only to Mr Kelso) achieved 56.7 per cent of target performance (FY2015: 68.1 per cent). This resulted in higher STI payments for executive KMP. Taking into account assessment of personal performance and excluding the impact of the executive retention plan, other executive KMP (excluding the Managing Director) average STI payments were 43.5 per cent of Fixed Annual Remuneration compared to 18.7 per cent in FY2015.
Long-term incentive	Total Shareholder Return (TSR) performance was above target but below maximum vesting and the Earnings Per Share (EPS) measure achieved an outcome resulting in maximum vesting. Overall, this resulted in a vesting of 120.3 per cent of target for the 2013 tranche. The Managing Director's LTI measures included additional components of Return on Invested Capital (ROIC) and Interest Cover Ratio (ICR). As set out above, the Managing Director's LTI vested at 104.9 per cent of target.

FY2016 remuneration summary (continued)

An illustration of the link between FY2016 business strategy, company performance and variable remuneration outcomes for executive KMP appears below. More specific information relating to how FY2016 STI and LTI outcomes were derived appears in later sections of this report.

Our Strategic Drivers	are reflected in our STI performance measures**	and our LTI performance measures	resulting in our actual company performance	directly affecting the reward outcomes of our executives
Financial	**EBITDA, return on equity, cash flow from operations** and **Select Solutions external EBIT** are the key financial performance measures for our business	**Total Shareholder Return (TSR)** measures our returns generated from the investments made in our operations comparator group **Earnings per share (EPS)** provides a tangible measure of shareholder value creation **Return on invested capital (ROIC)*** measures our returns generated from the investments in our operations **Interest cover ratio (ICR)*** provides an indication of our ability to service our debt obligations	2013 LTIP tranche KPIs Over the three year performance period, our TSR was ranked at the 71st percentile relative to our comparator group Our EPS achieved a 17.8% CAGR result ROIC did not achieve the minimum performance ICR for the three year performance period was 2.92 times, against a target of 2.85 times All three corporate financial measures for 2016 achieved an above target outcome The Select Solutions financial target was not achieved	LTI vesting outcome in FY2016 of 104.9% of target for the Managing Director and 120.3% of target for other KMP Managing Director STI outcome in FY2016 of 115.7% of target Other KMP STI range between 58.4% and 133.5% of target outcome
Safety	Safety of our people and the operation of our assets is paramount to our performance. Measured via **Recordable Injury Frequency Rate (RIFR)** and **F-factor** performance		For the corporate scorecard we achieved an above target result for five out of seven of the remaining STI measures. Capital efficiency was only partially achieved while our safety performance did not meet threshold For the Select Solutions scorecard, two of the KPIs achieved an above target result, two KPIs were partially achieved, while the safety target was not achieved	
People	Limiting our turnover and retaining our key talent is critical to our ongoing success			
Business and asset	Key business performance measures encompassing network reliability, capital efficiency, and major project delivery – aligned to our strategic plans. Select Solutions measures also included customer service and net organic growth			

* ROIC and ICR measures only apply to the Managing Director.

** The corporate KPIs for Mr Kelso include a blended mix of the corporate scorecard and Select Solutions scorecard. Refer to the ‘Remuneration elements’ section of this report for further details.

Remuneration governance

In October 2015, following a review of market providers, the Remuneration Committee formally appointed Ernst & Young (EY) as its remuneration advisor. Prior to the appointment of EY, PricewaterhouseCoopers (PwC) acted in the capacity of remuneration advisor.

No remuneration recommendations were provided to the Remuneration Committee or Board by PwC or EY during the reporting period. Advice was provided to the Remuneration Committee by EY during the reporting period, which outlined the current overall market conditions and external pay practices among a selected peer comparator group. This advice included an analysis of existing levels of fixed and performance remuneration of our senior executives and assisted the Board in reviewing and determining overall remuneration outcomes for the reporting period and the 2017 financial year.

Executive KMP remuneration structure

The key objective of our policy for executive KMP remuneration is to manage a total reward framework designed to attract, motivate and retain senior executives to deliver upon our business plans, while ensuring that remuneration outcomes are linked to company performance and therefore the interests of our shareholders.

Board decision-making on remuneration matters is guided by a comprehensive set of principles, outlined below:

Principle	Detail
Aligned to strategy and business needs	• The remuneration framework will enable AusNet Services to attract, retain and motivate talent to deliver high standards of business and industry performance. • Remuneration mix (specifically fixed to variable remuneration weighting) and incentive design will reflect the nature of the business and its strategic goals. • Targets for variable remuneration will align with the creation of value for shareholders, as set out in AusNet Services' Business Plan.
Market competitive	• Decisions on the remuneration framework and mix will be informed by external market information, benchmarking and internal relativities. • Benchmarking will be undertaken against the relevant market(s) within which AusNet Services competes for the relevant talent – including reference to criteria such as market capitalisation, revenue, asset valuation, ownership and industry. • Total and fixed remuneration outcomes are targeted to be at the relevant market median.
Performance-driven	• Decisions on the remuneration framework and mix will support AusNet Services' values and desired culture, including team performance. • Remuneration outcomes will be linked to both immediate performance and achieving long-term sustainable value. • Fixed remuneration rewards will be set at a fair market level for day-to-day accountabilities. Variable remuneration rewards will reflect evolving business challenges and performance priorities, financial and non-financial outcomes and executive value add.
Simple and transparent	• The remuneration framework and related outcomes will be transparent and easy to explain to both participants and the market.
Position in employee value proposition	• Remuneration is one component of AusNet Services' employee value proposition and will operate alongside initiatives that provide opportunities for career and professional development.
Reflects fairness across the business	• Fair and appropriate awards are provided across AusNet Services, whether employees are engaged under individual employment contracts or enterprise agreements. • Rewards, benefits and conditions will reflect the principles of merit.
Effective governance	• Remuneration will be reviewed through informed and balanced decision-making in accordance with these Principles to ensure that market positioning and internal relativities are maintained. • The Remuneration Committee and Board of AusNet Services acknowledge that these Principles and outcomes arising from the Remuneration Framework will be subject to and must be capable of withstanding appropriate external scrutiny.

Executive KMP remuneration structure (continued)

The following table outlines the elements of remuneration that make up total reward for the Managing Director and other executive KMP for the reporting period, expressed as a percentage of total on-target reward:

	Remuneration element	Link to our business strategy and performance	Reward mix (% of total reward) MD	Other exec KMP
Fixed	**Fixed annual remuneration** Base salary, non-monetary benefits and superannuation	Fixed remuneration is set at a market competitive level to attract and retain key talent. Fixed remuneration is set by having regard to the complexity of the role, skills and competencies required.	**40%**	**53%**
Variable	**Short-term incentive** Annual incentive delivered by way of a cash payment, the amount received based on performance over the year.	The STI is directly linked to company, divisional and individual performance with the type and weighting of objectives based on the role and responsibilities of the executive. An STI is awarded to an executive only if there has been a satisfactory level of company performance and the individual has met their KPIs. KPIs are based on a balanced scorecard of financial and non-financial measures.	**20%**	**21%**
Variable	**Long-term incentive** Delivered as performance rights that vest over a three-year period if relevant performance hurdles are achieved	The LTI Plan is designed to encourage and reward superior performance by the executive leadership team which is aligned with the interests of shareholders. The performance hurdles as determined by the Board to apply for 2016 LTIP invitations are Relative Total Shareholder Return (50%), Earnings Per Share growth (25%) and Return on Invested Capital (25%). The combination of these performance hurdles and the three-year vesting period incentivises the achievement of targeted objectives and assists in the retention of key executives.	**40%**	**26%**

In addition to the reward mix noted above, for FY2016 and FY2017 only, the Board has approved participation for a number of KMP in executive retention plans. Further detail concerning these plans is contained in the 'Executive Retention Plans – FY2016 and FY2017' section of this report. The Managing Director does not participate in these plans.

Remuneration elements

Fixed annual remuneration

Fixed annual remuneration (FAR) represents the fixed component of executive remuneration and consists of a mix of cash, superannuation, prescribed benefits and salary-sacrificed items such as motor vehicles and fringe benefits tax. Market data is sourced from external remuneration advisers who provide detailed analysis of market practice for the Remuneration Committee to consider in its decision-making. FAR is reviewed annually against market rates for comparable roles. There are no guaranteed FAR increases in any executive KMP's contract of employment.

Variable remuneration framework

The structure of the variable component of pay is designed to reward our executives directly for the performance of the company across a range of measures. The STI is focussed on achieving operation targets and short-term profitability and the LTI is focused on achieving long-term growth and retaining talented executives.

Remuneration elements (continued)

STI plan

The STI plan has been designed to reward participants for strong company and divisional financial and non-financial performance, along with individual contribution over the performance year. Corporate balanced scorecard outcomes determine the pool available for participants, while individual performance scorecards determine the proportion of the available pool each participant will receive. The amount of STI payment to each participant for the 12-month period to 31 March 2016 is therefore dependent upon:

- the extent to which the company has achieved or outperformed the corporate KPIs; and
- the extent to which the individual has achieved or outperformed their respective individual KPIs.

Individual STI outcomes are determined by multiplying the outcome of two separate scorecards (one corporate and one individual) by the participants' STI opportunity level (being a set percentage of FAR). For Mr Kelso only, the corporate KPI assessment is a blended mix comprising 30 per cent based on the corporate scorecard and 70 per cent based on the Select Solutions scorecard.

Participant Opportunity level (% of FAR)	x	**Corporate scorecards** 100% at target, Corporate capped at 200% of target, Select Solutions capped at 222% of target	x	**Individual scorecards** 100% at target, capped at 120% of target	=	**Individual STI outcome** (% of FAR)
Managing Director Other executive KMP		Safety Financial People Business and asset		Business Excellence Customer / Community Financial People Safety Strategy		May be moderated (positively or negatively), if warranted, based on overall role performance

By linking individual rewards to the achievement of overall corporate targets, these KPIs align the interests of employees and managers with those of our shareholders and assist in ensuring the affordability of the plan. Participation in the STI plan is expressed as a percentage of the participant's FAR as set out in the following table:

Reward element	Managing Director		Other executive KMP	
	Target	Maximum	Target	Maximum
STI (% of FAR)	50%	120%	40%	96% - 103.4%

The Managing Director and other executive KMP individual performance scorecards comprise a mix of company, divisional, and personal KPIs designed to contribute value to the business and ensure that the right behaviours are demonstrated across the organisation. The FY2016 corporate STI scorecard and Select Solutions STI scorecard (applicable to Mr Kelso) are set out in the following table:

Our strategic drivers	FY2016 corporate STI scorecard		FY2016 Select Solutions STI scorecard	
	Scorecard weighting	Measure	Scorecard weighting	Measure
Safety	15%	Recordable Injury Frequency Rate (RIFR) F-factor (fire-related regulatory performance measure)	10%	Recordable Injury Frequency Rate (RIFR)
Financial	40%	EBITDA Return on equity Cash flow from operations	40%	External EBIT (excluding new acquisitions and corporate overheads)
People	5%	Turnover of talent (mix of general staff and key talent turnover)	10%	Employee voluntary turnover
Business and asset	40%	USAIDI (electricity network reliability) Capital efficiency Metering program delivery – on time and budget ERP implementation – on time and budget, including benefits realisation	40%	Customer service Metering program field rollout Net organic growth (net new contracted revenue less existing contracts lost)

Remuneration elements (continued)

While not highlighted as direct financial measures, all KPIs within the FY2016 corporate and Select Solutions scorecards represented a quantifiable financial benefit to the Group. In particular, measures relating to F-factor and USAIDI are subject to regulatory incentive schemes and the ERP implementation measures benefits realisation associated with our investment.

The assessment of the Managing Director's individual performance scorecard outcome is conducted by the Board Chairman and the Remuneration Committee Chair, and is reviewed by the Board prior to any STI award being granted.

Participants in the FY2016 STI plan include the Managing Director, other executive KMP and permanent employees on individual employment agreements. Generally, executive KMP must complete the performance year to qualify for any STI payment. However, in some circumstances the Board, in its absolute discretion, may determine a pro-rata STI payment be awarded to an executive.

During FY2016, the Remuneration Committee considered whether to introduce deferral into the STI plan. However, the Committee, after considering relevant market information, decided not to introduce a deferred plan in FY2016.

Executive Retention Plans – FY2016 and FY2017

In the interests of retaining key personnel during a period of change and transformation in the industry, and on the recommendation of the Managing Director, the Board elected to invite several KMP to participate in an executive retention plan.

In issuing these invitations, the Board recognised the participants' contributions in ensuring the long-term success of the Group and the need to retain their skills and experience.

Under this plan, participants received an enhanced target STI opportunity of between 10 and 20 per cent of FAR. This uplift in STI opportunity applies for the FY2016 and FY2017 STI performance periods only, remains entirely at risk and is subject to the overall corporate and KMP individual performance outcomes.

As a result of the executive retention plan, target STI opportunities for the participating KMP range between 50 and 60 per cent with maximum STI opportunities ranging from 120 to 144 per cent.

The Chief Information Officer, Mr Mario Tieppo, does not participate in the above-mentioned retention plan. However, during the performance year, and in recognition of his critical role in delivery of the metering program, the Board approved a specific retention arrangement for Mr Tieppo. This plan, which operates over the FY2016 and FY2017 performance years, remains entirely at risk and is subject to the performance of a range of metering program performance milestones. The plan allows for a potential award of up to 50 per cent of Mr Tieppo's FAR upon conclusion of the two-year performance period.

The Board retains, at its absolute discretion, the right to vary any STI payment.

LTI plan

The LTI plan rewards participants for increasing long-term shareholder value through positive, sustainable company performance.

As foreshadowed in 2015, during FY2016 we introduced a new equity-based performance rights LTI plan. The use of equity aims to more closely align the interests of executives to our long-term strategic objectives and the creation of shareholder value both during and after the performance period.

Remuneration elements (continued)

Key design aspects of the LTI plan are outlined below:

Key design aspect	Commentary
Eligibility	Executive KMP. The Board may at its discretion invite additional employees who are in a position to influence long-term shareholder value to participate in the LTI plan.
Target LTI amount	The LTI award is calculated as a percentage of the participant's FAR as at the grant date. The number of performance rights issued is the percentage of FAR divided by the grant price which is determined by the Volume Weighted Average Price (VWAP) over the five trading days up to and including the trading day immediately preceding the grant date. The quantum available to participants expressed as a percentage of FAR as at the grant date is set out below:

Reward element	Managing Director		Other executive KMP	
	Target	Maximum	Target	Maximum
LTI (% of FAR)	100%	100%	50%	50%

Key design aspect	Commentary
Performance period	Performance is assessed over a three-year period and the LTI plan does not allow for retesting of performance measures in subsequent years.
Performance measures	The following performance measures are considered the most appropriate measures of our long-term performance and provide a balanced internal and external view of shareholder returns. **TSR:** The comparator group used for the TSR performance measure consists of the companies included in the S&P/ASX 200 index. In assessing whether the performance hurdles have been met, we receive independent data that provides both our TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR growth achieved by us is given a percentile ranking having regard to our performance compared with the performance of other companies in the comparator group. **EPS:** The EPS growth measure is based on us achieving a nominal compound annual growth (CAGR) of 5 per cent per annum over the three-year period. **ROIC:** The ROIC measure is designed to measure how effectively we use funds (borrowed and owned) invested in our operations. ROIC equals (NPAT + Finance Cost adjusted for Tax) / (Average Equity + Average Debt)
Weighting and targets	The LTI performance measures, their weighting and their respective targets are set out in the following table:

KPI	Weighting	Threshold	Vesting	Target	Vesting
TSR	50%	50th percentile ranking	35%	75th percentile ranking	100%
EPS	25%	2.5% CAGR	50%	5.0% CAGR	100%
ROIC	25%	*(not disclosed)*	50%	*(not disclosed)*	100%

The vesting of each of the above KPIs will occur on a linear basis between the threshold and target. Specific targets for the ROIC measure have not been disclosed due to commercial sensitivity. These will be retrospectively disclosed in the relevant year of vesting to demonstrate alignment between ROIC and remuneration outcomes.

Key design aspect	Commentary
Delivery mechanism	Commencing April 2015, the LTI award has been made in the form of performance rights, being rights to receive shares subject to continued employment and performance against the above measures. The Board retains the right to vary at its discretion the number of performance rights that vest.

Remuneration elements (continued)

2013 and 2014 LTI grants

While performance rights were granted under the 2015 LTI grant, all unvested LTI awards prior to this date were granted under the previous cash-based LTI plan. These awards will remain on-foot and will be subject to testing at the end of their respective performance periods. Performance measures under the previous plan are Relative TSR and EPS growth. In addition to these measures, the Managing Director's LTI award is also based on performance against ROIC and ICR measures.

Once the performance criteria have been satisfied, participants receive a cash award. Participants are then required (under the Plan Rules) to use the after tax cash proceeds of this award to purchase AusNet Services shares on-market. These purchases must be conducted during an approved trading window and the shares must be held for at least 12 months. Reasonable brokerage costs incurred by the participants are reimbursed.

The Board retains the right to vary any LTI payment at its discretion**.** A summary of key differences in the cash and performance rights based LTI plans are set out in the following table:

LTI KPI	2013 and 2014 awards				2015 award	
	Managing Director		Other executive KMP		Managing Director and other executive KMP	
	Weighting	Maximum	Weighting	Maximum	Weighting	Maximum
TSR	37.5%	100%	50%	100%	50%	100%
EPS	37.5%	150%	50%	150%	25%	100%
ROIC	12.5%	125%	n/a	n/a	25%	100%
ICR	12.5%	125%	n/a	n/a	n/a	n/a
Total	**100%**	**125%**	**100%**	**125%**	**100%**	**100%**
	The 2013 award has vested at 83.9 per cent of maximum for the Managing Director and 96.3 per cent of maximum for other executive KMP. The 2014 award is due for testing on 31 March 2017.				The 2015 award is due for testing on 31 March 2018.	

In order for the Managing Director to qualify for an award under both the ROIC and ICR measures in the 2013 and 2014 awards, a safety performance hurdle of zero fatalities for our employees in the 12 month period prior to vesting must be achieved.

<u>*Clawback arrangements*</u>

Where, in the opinion of the Board, the performance measures applicable to an award have been satisfied as a result of the fraud, dishonesty or breach of obligations of the participant and, in the opinion of the Board, the performance measures would not otherwise have been satisfied, the Board may determine that the performance measures are not satisfied and may, subject to applicable laws, determine that any vested award be clawed back.

Remuneration and other terms of employment

Remuneration and other terms of employment for the Managing Director and other executive KMP are set out below.

Managing Director	
Term of Agreement	Permanent, subject to one month's notice of termination by either party.
Fixed remuneration	Fixed remuneration includes base salary and superannuation. As at 31 March 2016, FAR was $1,086,800. Fixed remuneration is reviewed annually by the Remuneration Committee and the Board.
Short-term incentive	Annual short-term incentive of 50 per cent of FAR for on-target performance.
Long-term incentive	Long-term incentive of 100 per cent of FAR for on-target performance, based on the performance measures of TSR, EPS and ROIC. Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years.
Termination benefits	Termination benefits calculated at three weeks' pay for every year of service paid at the Managing Director's FAR rate and capped at six months.

The major provisions contained in the services agreements of the other executive KMP listed are substantially the same as those that apply to the Managing Director, although participation levels for STI and LTI vary.

FY2016 business result and remuneration outcomes

Key management personnel – STI

Overall the business achieved a corporate scorecard outcome of 127.1 per cent of overall target performance, with Select Solutions achieving 56.7 per cent resulting in a blended outcome for Mr Kelso of 77.8 per cent. The following table sets out the outcomes for each corporate performance measure against the threshold, target and maximum targets set:

FY2016 corporate STI scorecard			FY2016 performance outcomes		
Our strategic drivers	**Scorecard weighting**	**Measure**	**Threshold**	**Target (100%)**	**Maximum**
Safety	15%	RIFR			
		F-factor			
Financial	40%	EBITDA			
		Return on equity			
		Cash flow from operations			
People	5%	Turnover of talent			
Business and asset	40%	USAIDI (electricity network reliability)			
		Capital efficiency			
		Metering program delivery			
		ERP implementation			

FY2016 Select Solutions STI scorecard			FY2016 performance outcomes		
Our strategic drivers	**Scorecard weighting**	**Measure**	**Threshold**	**Target (100%)**	**Maximum**
Safety	10%	RIFR			
Financial	40%	External EBIT			
People	10%	Employee turnover			
Business and asset	40%	Customer service			
		Metering program field rollout			
		Net organic growth			

The percentage of the available STI that was paid, or that vested, in the financial years ended 31 March 2015 and 31 March 2016, and the percentage of target that was forfeited because the executive KMP did not meet the service or performance criteria, are set out below:

	FY2016 STI [1,2]					FY2015 STI		
	STI payable ($)	**Retention payable ($)**	**Total STI payable ($)**	**Percentage of target**			**Percentage of target**	
				Payable	**Forfeited**	**Paid ($)**	**Paid**	**Forfeited**
Nino **Ficca**	628,502	n/a	**628,502**	**115.7**	**0.0**	234,916	45.0	55.0
John **Azaris**	197,483	49,371	**246,854**	**114.4**	**0.0**	74,634	45.0	55.0
Chad **Hymas**	176,545	88,272	**264,817**	**133.5**	**0.0**	60,763	47.8	52.2
John **Kelso**	92,579	n/a	**92,579**	**58.4**	**41.6**	84,470	54.9	45.1
Adam **Newman**	352,237	176,119	**528,356**	**129.6**	**0.0**	144,659	55.6	44.4
Alistair **Parker**	177,074	88,537	**265,611**	**108.0**	**0.0**	76,393	48.5	51.5
Mario **Tieppo**	179,770	-	**179,770**	**108.0**	**0.0**	89,021	55.6	44.4

1. Incentive payments for the performance year ended 31 March 2016 have been approved and will be payable in June 2016.
2. These payments include the STI uplift for KMP participating in the executive retention plan with the exception of Mr Tieppo, whose executive retention plan is not measured and payable until FY2017.

Key management personnel – LTI

The following table sets out the performance of the KPIs under our 2013 grant of our LTI plan:

LTI measures and weighting			Three year performance outcomes		
Our strategic drivers	**MD weighting**	**Other executive KMP weighting**	**Threshold**	**Target (100%)**	**Maximum**
TSR	37.5%	50.0%			n/a
EPS	37.5%	50.0%			
ROIC	12.5%	n/a%			
ICR	12.5%	n/a%			

The following table shows the value of cash grants subject to future performance testing, percentage payable or forfeited and future financial years that grants may vest and be paid. The grants made in 2014 and 2015 are still in progress and, as such, no percentage of these grants has been paid or forfeited as at the date of this report.

	Date of grant	Percentage of maximum grant payable (%) [1]	Percentage of maximum grant forfeited (%)	Vesting date	Maximum total value of grant ($) [2]
Cash-based LTI plans					
Nino **Ficca**	1-Apr-13	83.9	16.1	31-Mar-16	1,358,500
John **Azaris**	1-Apr-13	96.3	3.7	31-Mar-16	269,750
Chad **Hymas**	1-Apr-13	96.3	3.7	31-Mar-16	206,700
John **Kelso**	1-Apr-13	96.3	3.7	31-Mar-16	247,844
Adam **Newman**	1-Apr-13	96.3	3.7	31-Mar-16	424,531
Alistair **Parker**	1-Apr-13	96.3	3.7	31-Mar-16	256,100
Mario **Tieppo** [3]	9-Dec-13	96.3	3.7	31-Mar-16	200,200
Total granted 1 April 2013					**2,963,625**
Nino **Ficca**	1-Apr-14	-	-	31-Mar-17	1,409,444
John **Azaris**	1-Apr-14	-	-	31-Mar-17	279,866
Chad **Hymas**	1-Apr-14	-	-	31-Mar-17	214,451
John **Kelso**	1-Apr-14	-	-	31-Mar-17	257,138
Adam **Newman**	1-Apr-14	-	-	31-Mar-17	440,451
Alistair **Parker**	1-Apr-14	-	-	31-Mar-17	265,704
Mario **Tieppo**	1-Apr-14	-	-	31-Mar-17	269,750
Total granted 1 April 2014					**3,136,804**
Performance rights					
Nino **Ficca**	1-Apr-15	-	-	31-Mar-18	739,722
John **Azaris**	1-Apr-15	-	-	31-Mar-18	146,882
Chad **Hymas**	1-Apr-15	-	-	31-Mar-18	112,551
John **Kelso**	1-Apr-15	-	-	31-Mar-18	134,954
Adam **Newman**	1-Apr-15	-	-	31-Mar-18	231,163
Alistair **Parker**	1-Apr-15	-	-	31-Mar-18	139,450
Mario **Tieppo**	1-Apr-15	-	-	31-Mar-18	141,573
Total granted 1 April 2015					**1,646,295**

1. These grants have been approved and will be payable in June 2016. In determining LTIs for the 1 April 2013 grant, the Board has not exercised any discretion in relation to the performance measures and outcomes payable under the LTI plan.
2. For the grant of 1 April 2013, the amounts payable equated to 96.3 per cent of the maximum LTI, except for Mr Ficca, whereby the amount payable equated to 83.9 per cent of the maximum LTI. For the grants of 1 April 2014, the amounts are based on maximum performance in relation to TSR, EPS, ROIC and ICR at the end of the three-year performance period described above and assume that prevailing FARs increase by 3.75 per cent per annum. For the performance rights granted on 1 April 2015, the amounts represent the fair value of the performance rights on grant date. The fair value of each right was $1 and as such the total fair value of the grant for each KMP is equal to the number of performance rights that were issued. There have been no rights exercised, vested or forfeited during the period. Refer to Note F.3 in the financial statements for further details.
3. Mr Tieppo commenced as KMP from 9 December 2013. As part of his contract of employment, Mr Tieppo has been granted pro-rata participation in the 1 April 2013 tranche of the LTI plan. The maximum total value of grant disclosed above is based on his pro-rata entitlement for the 2013 tranche.

Directors' report – Remuneration report (audited)

Total remuneration for executive key management personnel

The table below shows each element of our executive KMP total reported remuneration. FY2016 has seen a significant increase in reported remuneration compared to the prior year, principally arising from higher STI and LTI outcomes due to the following:

- The FY2016 STI corporate scorecard achieved 127.1 per cent of target performance, up from 56.2 per cent. This represents an average of 91.7 per cent over the two years. In FY2015, STI and LTI outcomes were negatively impacted by the tax charges recognised in relation to the settlement of the intra-group financing audit and the IP tax dispute. Conversely, the FY2016 STI and LTI outcomes have been favourably impacted by the tax benefits recognised in relation to the corporate restructure, which positively affects the financial performance measures; and
- In relation to some KMP, the STI for FY2016 includes additional targeted executive retention payments.

In approving these outcomes, the Board has ensured that there has been consistent approach across each of the years in terms of the measurement of the STI and LTI achievements.

			Short-term		Post-employment	Equity-based payments [3]	Other long-term benefits [4,5]	Total
	FY	Cash salary and fees [5]	STI [1]	Other short-term benefits [2,5]	Super-annuation			
Nino **Ficca**	**2016**	**905,478**	**628,502**	**85,778**	**104,792**	**880,542**	**58,646**	**2,663,738**
	2015	819,097	234,916	85,219	99,845	393,534	62,108	1,694,719
Adam **Newman**	**2016**	**604,228**	**528,356**	**58,142**	**25,096**	**298,471**	**18,860**	**1,533,153**
	2015	586,686	144,659	57,887	25,000	183,324	16,847	1,014,403
Charles **Popple**[6]	**2016**	**396,690**	**-**	**-**	**-**	**-**	**-**	**396,690**
	2015	416,794	-	-	-	-	-	416,794
Norm **Drew**	2015	96,640	-	5,383	12,138	(39,458)	6,017	80,720
Total Directors	**2016**	**1,906,396**	**1,156,858**	**143,920**	**129,888**	**1,179,013**	**77,506**	**4,593,581**
	2015	1,919,217	379,575	148,489	136,983	537,400	84,972	3,206,636
John **Azaris**	**2016**	**324,109**	**246,854**	**39,085**	**45,350**	**188,860**	**17,073**	**861,331**
	2015	317,182	74,634	33,650	43,378	98,514	19,830	587,188
Chad **Hymas**	**2016**	**277,528**	**264,817**	**33,161**	**25,096**	**144,717**	**12,248**	**757,567**
	2015	277,283	60,763	35,163	25,000	83,275	13,538	495,022
John **Kelso**	**2016**	**291,424**	**92,579**	**35,982**	**34,536**	**172,048**	**12,487**	**639,056**
	2015	315,488	84,470	35,247	33,402	95,168	27,805	591,580
Alistair **Parker**	**2016**	**366,576**	**265,611**	**44,922**	**24,176**	**179,302**	**12,739**	**893,326**
	2015	323,343	76,393	34,868	25,000	102,407	12,074	574,085
Mario **Tieppo**	**2016**	**374,521**	**179,770**	**38,797**	**25,096**	**143,699**	**115,146**	**877,029**
	2015	369,253	89,021	38,694	25,000	140,653	9,956	672,577
Total executive KMP	**2016**	**1,634,158**	**1,049,631**	**191,947**	**154,254**	**828,626**	**169,693**	**4,028,309**
	2015	1,602,549	385,281	177,622	151,780	520,017	83,203	2,920,452

1. FY2016 *STI* includes amounts in respect of performance for the year ended 31 March 2016 as well as FY2016 amounts payable under the executive retention plan. These amounts have been approved and will be payable in June 2016.
2. *Other short-term benefits* include car parking benefits and the accrual of annual leave entitlements. The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.
3. As the performance period over which the LTI awards vest is three years, the amount included in *Equity-based payments* is one-third of the amount estimated to be payable at the end of the performance period for each outstanding award. This estimated amount is based on certain assumptions regarding the achievement of performance targets, which are reviewed and adjusted annually. Any adjustments to previously recognised amounts, both positive and negative, are included in the current year. The actual amounts paid under these awards will not be known until the end of the performance period.

Total remuneration for executive key management personnel (continued)

4. *Other long-term benefits* include the accrual of long service leave entitlements. For Mr Tieppo, it also includes a pro rata accrual of his estimated executive retention plan to be assessed and payable in FY2017.
5. The above table represents the accounting value of KMP remuneration, calculated in accordance with accounting standards. As a result, annual leave and long service leave entitlements are recognised as remuneration when they accrue rather than when they are taken. This has the impact of reducing the cash salary and fees remuneration disclosed in the table above when these leave entitlements are ultimately taken by the KMP. In addition, any changes to the value of leave entitlements (for example, because of changes in FAR or long service leave entitlements not vesting) are recognised as remuneration, either positive or negative, in the year that the change occurs. These accounting adjustments to remuneration values are reflected in the *Cash salary and fees*, *Other short-term benefits* and *Other long-term benefits* disclosed in the table above.
6. Mr Popple provided services to the AusNet Services Ltd via a Consulting Services Agreement with Popple Power Consulting. Fees totalling $396,690 have been incurred by AusNet Services to Popple Power Consulting during the year ended 31 March 2016.

Shareholdings of KMP

The KMP of AusNet Services have disclosed relevant interests in shares as at 31 March 2016 as follows:

Name	Number of stapled securities at 1 April 2015	Granted during the year as compensation	Acquisitions / (disposal)	Number of shares at 31 March 2016
Non-executive Directors				
Charles **Popple**	442,140	-	8,450	450,590
Executive KMP				
Nino **Ficca**[1]	1,463,183	150,000	-	1,613,183
John **Azaris**	61,600	24,000	-	85,600
Chad **Hymas**	100,906	10,300	6,738	117,944
John **Kelso**[3]	108,964	21,920	526	131,410
Adam **Newman**[2]	50,000	26,190	-	76,190
Alistair **Parker**	52,871	12,000	3,556	68,427
Mario **Tieppo**[4]	4,000	10,300	-	14,300

1. 319,850 shares held by immediate family members of Mr Ficca and 1,293,333 shares held by Mr and Mrs Ficca as Trustees for the Ficca Investment Trust.
2. Shares held by Newman Family Trust for Mr Newman.
3. 122,199 shares held by immediate family members of Mr Kelso.
4. Shares held by immediate family members of Mr Tieppo.

Statutory disclosures

Meetings of Directors

The number of meetings of the Board of Directors of AusNet Services Holdings Pty Ltd held during the year ended 31 March 2016, and the number of meetings attended by each Director, are set out in the following table.

	Board of AusNet Services Holdings Pty Ltd	
	A	**B**
Nino **Ficca**	9	9
Adam **Newman**	9	9
Charles **Popple**	9	9

A = Number of meetings attended
B = Number of meetings held during the time the Director held office

Indemnification and insurance of officers and auditors

During the financial year, we paid a premium to insure the Directors and Company Secretaries of the Australian-based subsidiaries and the general managers of each of the divisions of AusNet Services. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance policy, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the policy.

No insurance premiums are paid by us in regard to insurance cover provided to the auditor of the Group, KPMG. The auditor is not indemnified and no insurance cover is provided to the auditor.

Non-audit services

We may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the relevant company and/or the Group are important.

Details of the amounts paid or payable to the auditor, KPMG, for audit and non-audit services provided during the year are set out in Note F.1 of the financial report.

In accordance with the advice provided by the Audit and Risk Management Committee, the Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act*. The Directors are satisfied for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act* is set out on page 28.

Environmental regulation and climate change

We were subject to both Federal and State Government environmental legislation during the year. The most significant areas of environmental legislation affecting us in Victoria are those which regulate noise emissions, greenhouse gas emissions, the discharge of emissions to land, air and water, the management of oils, chemicals and dangerous goods, the disposal of wastes, and those which govern the assessment of land use, including the approval of developments. The Directors are not aware of any breaches of legislation during the year which are material in nature.

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007 (Cth)*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. We meet these thresholds and have lodged our current year's NGER reporting with the Clean Energy Regulator for the period from 1 July 2014 to 30 June 2015.

Statutory disclosures (continued)

Significant changes in the state of affairs

Other than referred to above, in the opinion of the Directors, there were no significant changes in the state of affairs of the Group that occurred during the year under review.

Matters subsequent to the end of the financial year

(a) Change in Directors

Charles Popple resigned as Director of the Group effective 1 April 2016. Susan Taylor was appointed as Director effective 1 April 2016.

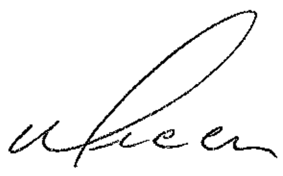
(b) Other matters

Other than noted above, the Directors are not aware of any circumstances that have arisen since 31 March 2016 that have significantly affected or may significantly affect the operations, and results of those operations or the state of affairs, of the Group in financial years subsequent to 31 March 2016.

Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars unless otherwise stated.

This report is made in accordance with a resolution of the Directors.



Nino Ficca
Managing Director

Melbourne
11 May 2016

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of AusNet Services Holdings Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Paul McDonald
Partner

Melbourne

11 May 2016

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated income statement
For the year ended 31 March 2016

	Notes	2016 $M	2015 $M
Revenue	B.1	**1,269.6**	1,194.4
Use of system and associated charges		**(109.7)**	(109.3)
Employee benefits expenses		**(166.0)**	(143.8)
External maintenance and contractors' services		**(83.2)**	(85.0)
Information technology and communication costs		**(36.5)**	(27.5)
Operating lease rental expenses		**(14.8)**	(14.3)
Administrative expenses		**(46.2)**	(37.0)
Materials		**(35.1)**	(53.4)
AMI customer rebates and asset write-off		**-**	(60.6)
Other costs		**(54.9)**	(51.6)
Disposal of property, plant and equipment		**(5.7)**	(6.3)
Total expenses excluding interest, tax, depreciation and amortisation		**(552.1)**	(588.8)
Earnings before interest, tax, depreciation and amortisation		**717.5**	605.6
Depreciation and amortisation	C.1, C.2	**(290.5)**	(282.0)
Profit from operating activities		**427.0**	323.6
Finance income	D.4	**130.2**	136.0
Finance costs	D.4	**(325.8)**	(351.0)
Net finance costs		**(195.6)**	(215.0)
Profit before income tax		**231.4**	108.6
Income tax benefit/(expense)	B.3	**218.0**	(5.0)
Profit for the year		**449.4**	103.6

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income

For the year ended 31 March 2016

	Notes	2016 $M	2015 $M
Profit for the year		**449.4**	103.6
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	F.2	**23.3**	(23.5)
Income tax on movement in defined benefit fund	B.3	**(7.0)**	7.1
		16.3	(16.4)
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		**6.5**	(20.3)
Income tax on movement in hedge reserve	B.3	**(16.1)**	6.1
		(9.6)	(14.2)
Other comprehensive income for the year, net of income tax		**6.7**	(30.6)
Total comprehensive income for the year		**456.1**	73.0

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position
As at 31 March 2016

	Notes	2016 $M	2015 $M
ASSETS			
Current assets			
Cash and cash equivalents		**440.2**	739.8
Receivables	B.2	**363.4**	423.5
Inventories		**49.7**	35.7
Derivative financial instruments	D.3	**81.6**	129.0
Other assets	B.2	**22.6**	18.8
Total current assets		**957.5**	1,346.8
Non-current assets			
Receivables		**2,396.2**	2,625.6
Property, plant and equipment	C.1	**5,692.0**	5,457.3
Intangible assets	C.2	**497.4**	459.1
Derivative financial instruments	D.3	**476.3**	522.6
Other assets		**2.5**	3.4
Total non-current assets		**9,064.4**	9,068.0
Total assets		**10,021.9**	10,414.8
LIABILITIES			
Current liabilities			
Payables and other liabilities	B.2	**389.6**	425.0
Provisions	B.2	**69.6**	91.1
Borrowings	D.2	**762.0**	776.7
Derivative financial instruments	D.3	**18.6**	44.9
Total current liabilities		**1,239.8**	1,337.7
Non-current liabilities			
Payables and other liabilities		**141.9**	744.3
Provisions	B.2	**43.1**	61.0
Borrowings	D.2	**6,054.2**	6,355.3
Derivative financial instruments	D.3	**174.3**	209.1
Deferred tax liabilities	B.3	**144.5**	363.6
Total non-current liabilities		**6,558.0**	7,733.3
Total liabilities		**7,797.8**	9,071.0
Net assets		**2,224.1**	1,343.8
EQUITY			
Contributed equity	D.5	**1,063.9**	640.0
Reserves		**(80.5)**	(71.2)
Retained profits		**1,240.7**	775.0
Total equity		**2,224.1**	1,343.8

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 31 March 2016

	Notes	Contributed equity $M	Share based payment reserve $M	Hedge reserve (i) $M	Retained profits $M	Total equity $M
31 March 2016						
Balance as at 1 April 2015		640.0	-	(71.2)	775.0	1,343.8
Total comprehensive income for the year						
Profit for the year		-	-	-	449.4	449.4
Other comprehensive income		-	-	(9.6)	16.3	6.7
Total comprehensive income for the year		-	-	**(9.6)**	**465.7**	**456.1**
Transactions with owners, recorded directly in equity						
New shares issued	D.5	423.9	-	-	-	423.9
Share based payments reserve	F.3	-	0.3	-	-	0.3
Total transactions with owners		**423.9**	**0.3**	**-**	**-**	**424.2**
Balance as at 31 March 2016		**1,063.9**	**0.3**	**(80.8)**	**1,240.7**	**2,224.1**
31 March 2015						
Balance as at 1 April 2014		640.0	-	(57.0)	687.8	1,270.8
Total comprehensive income for the year						
Profit for the year		-	-	-	103.6	103.6
Other comprehensive income		-	-	(14.2)	(16.4)	(30.6)
Total comprehensive income for the year		**-**	**-**	**(14.2)**	**87.2**	**73.0**
Balance as at 31 March 2015		**640.0**	**-**	**(71.2)**	**775.0**	**1,343.8**

(i) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset.

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

Consolidated statement of cash flows

For the year ended 31 March 2016

	2016 $M	2015 $M
Cash flows from operating activities		
Profit for the year	**449.4**	103.6
Income tax (benefit)/expense	**(218.0)**	5.0
Net finance costs (i)	**195.6**	215.0
Depreciation and amortisation	**290.5**	282.0
Disposal of property, plant and equipment	**5.7**	6.3
Write-off of assets	**-**	28.1
Contributed assets	**(15.9)**	(20.1)
Other non-cash items	**6.0**	6.8
Decrease/(increase) in receivables and other operating assets	**231.1**	(216.8)
(Decrease)/increase in payables, provisions and other operating liabilities	**(285.1)**	299.1
	659.3	709.0
Payment of MSA termination fee (inclusive of goods and services tax)	**-**	(35.0)
Finance income received	**8.7**	10.7
Finance costs paid	**(331.5)**	(338.5)
Net cash inflow from operating activities	**336.5**	346.2
Cash flows from investing activities		
Payments for property, plant and equipment (i)	**(474.1)**	(598.2)
Proceeds from sale of property, plant and equipment	**0.6**	-
Net cash outflow from investing activities	**(473.50)**	(598.2)
Cash flows from financing activities		
Proceeds of loans with related parties	**821.0**	891.2
Repayment of loans with related parties	**(710.2)**	(924.5)
Proceeds from borrowings	**1,100.0**	1,830.5
Repayment of borrowings	**(1,373.4)**	(1,159.0)
Net cash (outflow)/inflow from financing activities	**(162.6)**	638.2
Net (decrease)/increase in cash held	**(299.6)**	386.2
Cash and cash equivalents at the beginning of the year	**739.8**	353.6
Cash and cash equivalents at the end of the year	**440.2**	739.8

(i) Net finance costs include a credit of $10.5 million (2015: $11.1 million) for capitalised finance charges which is included in payments for property, plant and equipment.

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

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Section A Overview

Over the past year we have reviewed the content and structure of our financial report in order to make it less complex and more relevant to users. This included:

- a review of content to eliminate immaterial disclosures that may undermine the usefulness of the financial report by obscuring important information;
- reorganising the notes to the financial statements into separate sections to help users understand our financial performance; and
- disclosing accounting policies and key estimates and judgements applied to the preparation of the financial statements in the relevant notes in order to provide the appropriate context.

The purpose of these changes is to provide users with financial information that is more understandable and better structured to explain our financial performance and financial position.

We have included information in this report that we deem to be material and relevant to the understanding of the financial statements. Disclosure may be considered material and relevant if the dollar amount is significant due to size or nature, or the information is important to understand:

- our current year results;
- the impact of significant changes in our business; or
- aspects of our operations that are important to future performance.

(a) Basis of preparation

The consolidated general purpose financial report, prepared by a for-profit entity and presented in Australian dollars, represents the consolidated financial statements of AusNet Services Holdings Pty Ltd (the Company) and its subsidiaries. The consolidated group is collectively referred to as the Group, we, us or our. The ultimate Australian parent of the Company is AusNet Services Ltd, which is part of a consolidated group trading as AusNet Services. The financial statements were approved by the Board of Directors on 11 May 2016.

The financial report has been prepared:

- in accordance with Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act 2001* (Cth), as well as International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board;
- under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value;
- with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Class Order 98/100 issued by the Australian Securities and Investments Commission; and
- on a going concern basis, which contemplates the continuity of normal trading operations. The Group's current liabilities exceed current assets by $282.3 million at 31 March 2016. The Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2016, the Group has available a total of $775.0 million of undrawn but committed non-current bank debt facilities, $100.0 million of undrawn but committed current bank debt facilities and $440.2 million of cash.

The accounting policies applied by the Group in this financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2015 with the exception of the following:

- early adoption of AASB 9 *Financial Instruments*, as described in Note D.3;
- change in discount rate for employee liabilities, as described in Note F.2; and
- reclassification of software assets to intangible assets, as described in Note C.2.

(b) Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed throughout the financial statements located within the following notes:

- B.2 – Working capital
- B.3 – Taxation
- C.1 – Property, plant and equipment
- C.3 – Impairment of non-current assets
- D.3 – Financial risk management
- F.2 – Defined benefit obligation

Section B Operating our business

This section highlights the performance of the Group for the year, including results by operating segment, details of income tax expense and related balances. In addition, this section provides information on the working capital used to generate the Group's trading performance and the liabilities incurred as a result.

Note B.1 Segment results

Segment information is based on the information that management uses to make decisions about operating matters and allows users to review operations through the eyes of management. We present our reportable segments and measure our segment results for each of our networks as well as our unregulated Select Solutions business.

(a) Description of reportable segments

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses for which discrete financial information is available and whose operating results are regularly reviewed by the chief operating decision maker. The Group is organised into the following segments:

(i) Electricity distribution

The electricity distribution network carries electricity from the high voltage transmission network to end users. We charge retailers and some large customers regulated rates for the use of the electricity distribution network. The electricity distribution segment does not purchase or sell electricity. Our electricity distribution network covers eastern Victoria including the eastern metropolitan region of Melbourne.

(ii) Gas distribution

The gas distribution network carries natural gas to commercial and residential end users. We charge retailers and some large customers regulated rates for the use of the gas distribution network. The gas distribution segment does not purchase or sell gas. Our gas distribution network covers central and western Victoria.

(iii) Select Solutions

Select Solutions provides specialist metering, asset intelligence and telecommunication solutions. Select Solutions' customers are primarily businesses operating in the utility and essential infrastructure sectors such as electricity, water, gas, telecommunications and rail companies.

Note B.1 Segment results (continued)

(b) Reportable segment financial information

	Electricity distribution	Gas distribution	Select Solutions (ii)	Consolidated
2016	**$M**	**$M**	**$M**	**$M**
Regulated revenue	928.9	180.2	-	**1,109.1**
Customer contributions	31.0	5.0	-	**36.0**
Service revenue	-	-	99.4	**99.4**
Other revenue	3.7	3.6	17.8	**25.1**
Total segment revenue	**963.6**	**188.8**	**117.2**	**1,269.6**
Segment expense before depreciation and amortisation	(387.7)	(52.1)	(112.3)	**(552.1)**
Segment result – EBITDA (i)	**575.9**	**136.7**	**4.9**	**717.5**
Depreciation and amortisation	(229.3)	(55.9)	(5.3)	**(290.5)**
Net finance costs				**(195.6)**
Income tax expense				**218.0**
Profit for the year				**449.4**
Capital expenditure	467.3	92.7	9.7	**569.7**
2015				
Regulated revenue	839.0	174.1	-	**1,013.1**
Customer contributions	33.3	12.3	-	**45.6**
Service revenue	-	-	106.8	**106.8**
Other revenue	7.3	0.9	20.7	**28.9**
Total segment revenue	**879.6**	**187.3**	**127.5**	**1,194.4**
Segment expense before depreciation and amortisation	(421.8)	(45.3)	(121.7)	**(588.8)**
Segment result – EBITDA (i)	**457.8**	**142.0**	**5.8**	**605.6**
Depreciation and amortisation	(218.7)	(59.1)	(4.2)	**(282.0)**
Net finance costs				**(215.0)**
Income tax expense				**(5.0)**
Profit for the year				**103.6**
Capital expenditure	486.9	99.0	10.1	**596.0**

(i) Earnings before interest, tax, depreciation and amortisation.

(ii) The segment financial information for Select Solutions only includes revenues and expenses associated with external parties. All expenses incurred by Select Solutions for the Group's other segments are allocated to those segments.

Note B.1 Segment results (continued)

(c) Notes to and forming part of the segment information

(i) Regulated revenue

Regulated revenue includes revenue earned from the distribution of electricity and gas in accordance with the relevant regulatory determination, as well as revenue earned from alternative control services. Revenue is measured at the fair value of the consideration received net of the amount of Goods and Services Tax (GST) payable to the taxation authority. Regulated revenue is recognised as the services are rendered.

(ii) Customer contributions

Non-refundable contributions received from customers towards the cost of extending or modifying our networks are generally recognised as revenue and an asset respectively once control is gained of the contribution or asset and the customer is connected to the network. For unregulated customer projects, contributions received are recognised as revenue on a straight-line basis over the term of the connection agreement.

Customer contributions of cash are measured with reference to the cash contribution received and customer contributions of assets are measured at the fair value of the assets contributed at the date we gain control of the asset. Fair value is determined with reference to the depreciated replacement cost of the asset, unless another measure of fair value is considered more appropriate.

(iii) Service revenue

Service revenue is recognised as the services are rendered. This includes revenue earned from specialist utility related solutions, in particular metering, monitoring and asset inspection services.

(iv) Other revenue

Other revenues primarily include material sales, rental income and Government grants. Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and we will comply with the conditions associated with the grant, and are then recognised in the income statement as other income on a systematic basis over the useful life of the assets associated with the grant.

(v) Allocation to segments

Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. The Cost Allocation Method as approved by the Australian Energy Regulator (AER) is used as the basis for allocating expenses to the relevant segment.

Note B.2 Working capital

Working capital are the short term assets and liabilities that are utilised as part of the day-to-day operations of the Group and are not used for investing purposes.

Key estimates and judgements – Accrued revenue

Revenue accrual estimates are made to account for the unbilled period between the end user's last billing date and the end of the accounting period. The accrual relies on detailed analysis of customers' historical consumption patterns, and takes into account base usage and sensitivity to prevailing weather conditions. The results of this analysis are applied for the number of days and weather conditions over the unbilled period.

The accrual for solar rebates paid to retailers is calculated by applying the average rebate per day (based on the amount billed) to the number of unbilled days at month end.

	Assets		**Liabilities**	
	2016	2015	**2016**	2015
	$M	$M	**$M**	$M
Accounts receivable/payable	**19.6**	29.0	**(45.9)**	(19.2)
Related party receivables/payables	**230.4**	10.0	**(167.2)**	(10.7)
Accrued revenue/accrued expenses	**112.7**	121.5	**(112.2)**	(69.3)
Customer deposits	**-**	-	**(20.4)**	(14.5)
Deferred revenue	**-**	-	**(6.9)**	(5.0)
Murrindindi bushfire settlement	**-**	260.9	**-**	(260.9)
Other receivables/payables	**0.2**	0.2	**(1.2)**	(4.9)
Interest receivables/payables	**0.5**	1.9	**(35.8)**	(40.5)
Total current receivables/payables	**363.4**	423.5	**(389.6)**	(425.0)
Current other assets	**22.6**	18.8	**-**	-
Current provisions	**-**	-	**(69.6)**	(91.1)
Working capital	**386.0**	442.3	**(459.2)**	(516.1)

(a) Accounts receivable

Current and non-current receivables are initially recognised at the fair value of the amounts to be received and are subsequently measured at amortised cost, less any allowance for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. An allowance for impairment is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables.

Accounts receivable are non-interest bearing and the average credit period on sales of distribution and specialist utility services is ten business days.

The ageing of accounts receivable as at reporting date was:

	Gross	**Allowance**	Gross	Allowance
	2016	**2016**	2015	2015
	$M	**$M**	$M	$M
Not past due	**15.0**	**-**	20.6	-
0 - 30 days	**1.1**	**-**	5.0	-
31 - 60 days	**0.3**	**-**	2.5	-
61 - 90 days	**1.3**	**-**	0.5	-
Greater than 90 days	**2.0**	**(0.1)**	0.4	-
Total	**19.7**	**(0.1)**	29.0	-

Note B.2 Working capital (continued)

(a) Accounts receivable (continued)

Of those debts that are past due, the majority are receivable from high credit quality counterparties. Receivables relating to regulated revenue streams (which account for approximately 87.4 per cent of revenues) are owed by retailers and distributors in the industry. There are strict regulatory requirements regarding who can obtain a retail or distribution licence and the Essential Services Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. The Australian Energy Market Operator (AEMO) also has high prudential requirements for retailers who participate in the market. Retailers must provide guarantees as requested by AEMO to minimise the risk of exposure by other participants to any defaults.

(b) Trade and other payables

These amounts represent liabilities for goods and services provided to us prior to the end of financial year which are unpaid. Trade and other payables are stated at cost, are unsecured and are usually payable within 30 days of the end of the month.

(c) Provisions

	Notes	2016 $M	2015 $M
Current provisions			
Employee benefits (i)		**57.5**	46.8
Sundry provisions (ii)		**11.7**	11.8
AMI customer rebates provision (iii)		**0.4**	32.5
Total current provisions		**69.6**	91.1
Non-current provisions			
Employee benefits (i)		**4.4**	4.6
Environmental provision (iv)		**30.3**	28.3
Make good provision		**1.5**	1.6
Defined benefit fund	F.2	**6.9**	26.5
Total non-current provisions		**43.1**	61.0
Total provisions		**112.7**	152.1

(i) Employee benefits provisions represent provisions for annual and long service leave for our employees as well as provisions for employee bonuses. Liabilities for annual leave and long service leave are measured at the present value of expected future payments for services provided by employees up to the reporting date, including on-costs. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(ii) Sundry provisions include uninsured losses, litigation costs and cross boundary charges.

(iii) Under the Victorian Government's customer rebate policy, we were required to pay a fixed amount of $125 per customer as a one-off lump sum for premises that did not have a smart meter installed that communicated remotely with the market by 31 March 2015. These amounts were paid in financial year 2016.

(iv) The environmental provision represents an estimate of the costs of rehabilitating sites, including the estimated costs to remediate soil and water contamination on gas sites which were previously used as coal gas production facilities. The provision is based on the estimated costs and timing of remediation/refurbishment, taking into account current legal requirements, the estimated extent of the contamination, the nature of the site and surrounding areas, and the technologies and methods available.

Note B.3 Taxation

Key estimates and judgements – Income taxes

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in relation to the application of tax legislation as it applies to the Group. Judgement is required in determining the provisions for income taxes and in assessing whether deferred tax balances are to be recognised in the statement of financial position. Changes in tax legislation may affect the amount of provision for income taxes and deferred tax balances recognised.

(a) Effective tax rate reconciliation

	2016	2015
	$M	$M
Profit before income tax expense	**231.4**	108.6
Tax at the Australian tax rate of 30% (2015: 30%)	**69.4**	32.6
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Recognition of additional tax losses (i)	**-**	(24.5)
Impact of entry into new tax consolidated group (ii)	**(287.9)**	-
Prior year under/(over) provisions	**0.8**	(1.5)
Sundry items	**(0.3)**	(1.6)
Income tax (benefit)/expense	**(218.0)**	5.0
Consists of:		
Current tax	**24.2**	(40.7)
Prior year (over)/under provision - current tax	**-**	(3.6)
Deferred tax	**(243.1)**	47.2
Prior year under/(over) provision - deferred tax	**0.9**	2.1
Income tax (benefit)/expense	**(218.0)**	5.0

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly 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. Both our current income tax and deferred tax are calculated using tax rates that have been enacted or substantively enacted at reporting date.

Our effective tax rate for the year ended 31 March 2016 diverged from the prima facie tax rate of 30 per cent due to the following:

(i) In the previous financial year, AusNet Services and the Australian Taxation Office (ATO) settled all matters concerning intra-group financing arrangements and rights to future income issues. As a result of this settlement, we had recognised additional tax losses amounting to $24.5 million (tax-effected) that were previously not booked. In accordance with the tax funding agreement, these losses have been transferred to AusNet Services Limited, which is the head entity in the tax consolidated group.

(ii) Under the new corporate structure, AusNet Services Ltd has formed a single tax consolidated group that replaces the previous two tax consolidated groups of AusNet Services (Distribution) Ltd and AusNet Services (Transmission) Ltd. As a result of this change:

- the tax bases of the assets of AusNet Services (Distribution) Ltd tax consolidated Group have been reset with a valuation uplift of $976.3 million recognised. As a result, deferred tax liabilities have been reduced by $292.9 million (being the tax effect of the valuation uplift); and
- the change to a new tax consolidated group required the reversal of historical deferred tax on derivative financial instruments ($4.9 million).

Note B.3 Taxation (continued)

(b) Current tax

Current tax is calculated on accounting profit after adjusting for non-taxable and non-deductible items based on rules set by the tax authorities. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(i) Tax consolidation

AusNet Services Ltd is the head entity in a tax consolidated group comprising itself and its wholly owned subsidiaries.

The current and deferred tax amounts for the tax consolidated group are allocated among entities in the group using the stand alone taxpayer method.

Members of the tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangement requires payments to/(from) the head entity equal to the current tax liability/(asset) calculated under the stand alone taxpayer method and any deferred tax asset relating to tax losses assumed by the head entity. Members of the tax consolidated group have also entered into a valid tax sharing agreement under the tax consolidation legislation which set out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated group.

The head entity recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the assets can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised in conjunction with any tax funding arrangement amounts.

c) Deferred tax

	Deferred tax assets / (Deferred tax liabilities)				
	1 April 2015	**Prior year under/overs**	**(Charged)/ credited to income statement**	**Charged/ (credited) to other comprehensive income**	**31 March 2016**
2016	**$M**	**$M**	**$M**	**$M**	**$M**
Employee benefits	15.4	0.2	3.1	-	**18.7**
Other accruals and provisions	37.1	(0.8)	2.9	-	**39.2**
Derivative financial instruments and fair value adjustments on borrowings	38.5	-	(61.9)	(16.1)	**(39.5)**
Defined benefit funds	8.0	-	1.1	(7.0)	**2.1**
Intangibles	(4.2)	-	(22.1)	-	**(26.3)**
Property, plant and equipment	(458.4)	(0.3)	320.0	-	**(138.7)**
Net deferred tax liabilities	(363.6)	(0.9)	243.1	(23.1)	**(144.5)**

Note B.3 Taxation (continued)

c) Deferred tax (continued)

	Deferred tax assets / (Deferred tax liabilities)				
	1 April 2014	Prior year under/overs	(Charged)/ credited to income statement	Charged/ (credited) to other comprehensive income	31 March 2015
2015	**$M**	**$M**	**$M**	**$M**	**$M**
Employee benefits	14.7	-	0.7		**15.4**
Other accruals and provisions	25.5	-	11.6		**37.1**
Derivative financial instruments and fair value adjustments on borrowings	31.1	-	1.3	6.1	**38.5**
Defined benefit funds	0.3	-	0.6	7.1	**8.0**
Intangibles	(4.8)	-	0.6		**(4.2)**
Property, plant and equipment	(395.3)	(2.1)	(61.0)		**(458.4)**
Other	1.0	-	(1.0)		**-**
Net deferred tax liabilities	(327.5)	(2.1)	(47.2)	13.2	**(363.6)**

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. 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 nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

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 the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, 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 we intend to settle our tax assets and liabilities on a net basis.

Section C Investing in our business

This section highlights the investments made by us into our non-current asset base, including the core network assets, and provides a summary of our impairment assessment.

Note C.1 Property, plant and equipment

Key estimates and judgements – Useful life assessments

Management judgement is applied to estimate service lives and residual values of our assets and these are reviewed annually. If service lives or residual values need to be modified, the depreciation expense changes as from the date of reassessment until the end of the revised useful life (for both the current and future years). This assessment includes consideration of the regulatory environment and technological developments.

Items of property, plant and equipment are stated at historical cost less depreciation. The cost of contributed assets is their fair value at the date we gain control of the asset.

Historical cost includes all expenditure that is directly attributable to the acquisition of the asset, including an appropriate allocation of overheads and capitalised borrowing costs. Cost may also include transfers from the hedge reserve of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably.

Items of plant and equipment under construction are recognised as capital work in progress. Once the asset construction is complete and the asset is capable of operating in the manner intended by management, the item of plant and equipment is transferred from capital work in progress to the relevant asset class and depreciation of the asset commences.

Maintenance and repair costs and minor renewals are charged as expenses as incurred, except where they relate to the replacement of an asset, in which case the costs are capitalised and depreciated, and the replaced item is derecognised.

Depreciation is recognised on property, plant and equipment, including freehold buildings, but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually, and where changes are made, their effects are accounted for on a prospective basis.

Note C.1 Property, plant and equipment (continued)

	Freehold land	Buildings	Easements	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital work in progress	Total
	$M	$M	$M	$M	$M	$M	$M	$M
Useful life (years)	Indefinite	40-99	Indefinite	5-70	15-80	3-12	n/a	
2016								
Carrying amount at 1 April 2015	24.4	49.9	1.1	3,530.5	1,415.5	184.3	251.6	**5,457.3**
Additions	-	-	-	-	-	-	492.0	**492.0**
Transfers	-	10.9	-	370.0	89.3	22.2	(492.4)	**-**
Disposals	(0.1)	-	-	(2.4)	(3.6)	(0.1)	-	**(6.2)**
Depreciation expense	-	(1.0)	-	(152.8)	(38.7)	(58.6)	-	**(251.1)**
Carrying amount at 31 March 2016	**24.3**	**59.8**	**1.1**	**3,745.3**	**1,462.5**	**147.8**	**251.2**	**5,692.0**
Cost	24.3	66.6	1.1	5,508.0	1,978.0	452.0	251.2	**8,281.2**
Accumulated depreciation	-	(6.8)	-	(1,762.7)	(515.5)	(304.2)	-	**(2,589.2)**
Carrying amount at 31 March 2016	**24.3**	**59.8**	**1.1**	**3,745.3**	**1,462.5**	**147.8**	**251.2**	**5,692.0**

Note C.1 Property, plant and equipment (continued)

	Freehold land	Buildings	Easements	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital work in progress	Total
	$M	$M	$M	$M	$M	$M	$M	$M
Useful life (years)	Indefinite	40-99	Indefinite	5-70	15-80	3-12	n/a	
2015								
Carrying amount at 1 April 2014	24.4	37.4	1.1	3,243.6	1,346.5	229.6	272.2	**5,154.8**
Additions	-	-	-	-	-	-	574.0	**574.0**
Transfers	-	13.2	-	456.8	109.2	15.4	(594.6)	**-**
Disposals	-	-	-	(3.0)	(2.7)	(0.6)	-	**(6.3)**
Write-off	-	-	-	(20.6)	-	-	-	**(20.6)**
Depreciation expense	-	(0.7)	-	(146.3)	(37.5)	(60.1)	-	**(244.6)**
Carrying amount at 31 March 2015	**24.4**	**49.9**	**1.1**	**3,530.5**	**1,415.5**	**184.3**	**251.6**	**5,457.3**
Cost	24.4	55.7	1.1	5,199.4	1,895.1	431.3	251.6	**7,858.6**
Accumulated depreciation	-	(5.8)	-	(1,668.9)	(479.6)	(247.0)	-	**(2,401.3)**
Carrying amount at 31 March 2015	**24.4**	**49.9**	**1.1**	**3,530.5**	**1,415.5**	**184.3**	**251.6**	**5,457.3**

Note C.2 Intangible assets

	Distribution licences (i)	**Goodwill** (ii)	**Software** (iii)	**Other intangible assets**	**Total**
	$M	**$M**	**$M**	**$M**	**$M**
Useful life (years)	Indefinite	Indefinite	3-10	3-10	
Year ended 31 March 2016					
Carrying amount at 1 April 2015	354.5	12.1	91.1	1.4	459.1
Additions	-	-	77.7	-	77.7
Amortisation expense	-	-	(39.0)	(0.4)	(39.4)
Carrying amount as at 31 March 2016	**354.5**	**12.1**	**129.8**	**1.0**	**497.4**
Cost	354.5	12.1	377.7	4.0	748.3
Accumulated amortisation	-	-	(247.9)	(3.0)	(250.9)
Carrying amount as at 31 March 2016	**354.5**	**12.1**	**129.8**	**1.0**	**497.4**
Year ended 31 March 2015					
Carrying amount at 1 April 2014	354.5	12.1	106.1	1.8	474.5
Additions	-	-	22.0	-	22.0
Amortisation expense	-	-	(37.0)	(0.4)	(37.4)
Carrying amount as at 31 March 2015	**354.5**	**12.1**	**91.1**	**1.4**	**459.1**
Cost	354.5	12.1	303.1	4.0	673.7
Accumulated amortisation	-	-	(212.0)	(2.6)	(214.6)
Carrying amount as at 31 March 2015	**354.5**	**12.1**	**91.1**	**1.4**	**459.1**

(i) Distribution licences

The distribution licences held entitle us to distribute electricity and gas within our licensed region. Distribution licences are stated at cost and are considered to be indefinite life intangible assets, which are not amortised. The distribution licences are tested for impairment annually and are carried at cost less any accumulated impairment losses.

The distribution licences are considered to have an indefinite life for the following reasons:

- the licences have been issued in perpetuity provided we comply with certain licence requirements;
- we monitor our performance against those licence requirements and ensure that they are met; and
- we intend to, and are able to continue to, maintain the networks for the foreseeable future.

Note C.2 Intangible assets (continued)

(ii) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, our interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of our previously held equity interest in the acquiree (if any), the excess is recognised immediately in the income statement as a gain.

Goodwill is not amortised but is reviewed for impairment annually.

(iii) Software

Following the completion of several major software projects, we have reclassified software assets to intangible assets (previously property, plant and equipment). This change in accounting policy has resulted in the restatement of the 31 March 2015 statement of financial position, reducing the value of property, plant and equipment by $91.1 million and increasing intangible assets by the same amount. In addition, the useful life of software assets has been changed from 3 to 5 years to 3 to 10 years.

Computer software, developed internally or acquired externally, is initially measured at cost and includes development expenditure. Subsequently, these assets are carried at cost less accumulated amortisation and impairment losses. Software assets are amortised on a straight-line over their estimated useful lives.

Note C.3 Impairment of non-current assets

At each reporting date, we review the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. An impairment loss occurs when an asset's carrying amount exceeds its recoverable amount. 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, we estimate the recoverable amount of the cash generating unit (CGU) to which the asset belongs. A CGU is the smallest group of assets that generate largely independent cash inflows.

Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually regardless of whether there is an indication that the asset or related CGU may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, the estimated future post-tax cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss is recognised in the income statement immediately.

Key estimates and judgements – Determination of CGUs and estimated recoverable amount of CGUs

We have applied significant judgement in determining our CGUs. In particular, we have determined that the assets under the AMI program form part of the electricity distribution CGU as the AMI assets are required, together with the rest of the electricity distribution network, in order to provide a network service to customers. As a result, the AMI assets are tested for impairment together with the electricity distribution regulated network assets and cash flows.

Key estimates and judgements have also been applied in the measurement of the recoverable amount, the details of which are provided below.

Sensitivity analysis examined the effect of a change in a key assumption on each CGU. We do not believe any reasonable possible change in key assumptions would cause the carrying value of the CGUs to exceed their recoverable amount.

The following CGUs have significant amounts of intangible assets with an indefinite useful life:

	Cash flow projection period (i)	**Post tax discount rate** (ii)	**Terminal growth rate** (iii)	**Carrying value**	
				2016	2015
	Years	**%**	**%**	**$M**	$M
CGU					
Electricity distribution (distribution licence)	20	5.0	2.5	**117.2**	117.2
Gas distribution (distribution licence)	20	5.0	2.5	**237.3**	237.3
Asset Solutions business (goodwill)	5	10.1	2.5	**11.8**	11.8

(i) Regulated cash flow forecasts are based on allowable returns on electricity and gas distribution assets as set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively, together with other information included in our five-year forecast. Cash flows after that period are based on an extrapolation of the forecast, taking into account inflation and expected customer connection growth rates. It is considered appropriate to use cash flows after our five-year forecast period considering the long-term nature of the Group's activities.

(ii) Discount rate represents the post-tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk-adjusted discount rate that is adjusted for specific risks relating to the CGU and the countries in which it operates.

Note C.3 Impairment of non-current assets (continued)

(iii) Terminal value growth rate represents the growth rate applied to extrapolate the CGU's cash flows beyond the five-year forecast period. These growth rates are based on our expectation of the CGUs' long term performance in their markets.

Appropriate terminal values were calculated using a range of both Regulated Asset Base (RAB) multiples and market earnings before interest, tax, depreciation and amortisation multiples. Fair value less costs to sell is measured using inputs that are not based on significant observable market data. Therefore, they are considered to be level three within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

Note C.4 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as a liability is as follows:

	2016	2015
	$M	$M
Property, plant and equipment	**290.6**	239.2

(b) Lease commitments

Our leases relate to premises, vehicles, network land and access sites under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. We do not have any finance lease arrangements.

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities are as follows:

	2016	2015
	$M	$M
Payable:		
Within one year	**12.0**	12.2
Later than one year, but no later than five years	**21.1**	30.0
Later than five years	**7.7**	10.3
	40.8	52.5
Representing:		
Non-cancellable operating leases	**40.8**	52.5

Section D Financing our business

This section provides information relating to our capital structure and our exposure to financial risk, how they affect the Group's financial position and performance, and how those risks are managed.

Note D.1 Capital management

Our capital structure consists of debt and equity. We determine the appropriate capital structure, including the mix of debt and equity, in order to finance the current and future activities of the Group. We review our capital structure and dividend policy regularly and do so in the context of our ability to continue as a going concern, to invest in opportunities that grow the business, and to enhance shareholder value.

Our policy is to target an 'A' range credit rating and a capital structure appropriate to generate desired shareholder returns to ensure a low cost of capital.

An important credit metric which assists management to monitor our capital structure is the net debt to Regulated and Contracted Asset Base (R&CAB) ratio, determined as indebtedness as a percentage of the R&CAB. Indebtedness is debt at face value (net of cash) excluding any derivative financial instruments. The R&CAB consists of the following items:

- RAB, which is subject to some estimation as the AER ultimately determines the RAB of each network. RAB includes the value of regulated network assets as well as network assets that will become regulated at the next regulatory period; and
- the value of unregulated network assets whose revenues and returns are set through a negotiated or competitive process rather than through regulation.

The movement of this metric over time demonstrates how the business is funding its capital expenditure in terms of debt versus income generating assets. We target a net debt to R&CAB ratio of less than 75 per cent.

In addition, there are other important credit metrics that we regularly monitor. These include FIFO to debt and Interest cover.

The net debt to R&CAB ratio for AusNet Services Group as at reporting date was as follows:

	2016	2015
	%	%
Net debt to R&CAB	**67.2**	67.5

Note D.2 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, except as detailed below. Any difference between the proceeds (net of transaction costs) and redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings which are part of a fair value hedge relationship are recognised at amortised cost, adjusted for the gain or loss attributable to the hedged risk. The gain or loss attributable to the hedged risk is recorded in the income statement together with any changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges.

Borrowings are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date or have the sole discretion to refinance or roll over the liability for at least 12 months after the reporting date under an existing loan facility.

		Carrying value		**Face value** (i)	
		2016	2015	**2016**	2015
		$M	$M	**$M**	$M
Current borrowings					
Commercial paper		**-**	94.6	**-**	95.0
Swiss franc (CHF) senior notes	Feb 2017	**340.9**	646.1	**271.7**	520.1
Bank debt facilities		**-**	36.0	**-**	36.0
US dollar (USD) senior notes	Sep-Dec 2016	**421.1**	-	**410.4**	-
Total current borrowings		**762.0**	776.7	**682.1**	651.1
Non-current borrowings					
US dollar (USD) senior notes		**-**	434.4	**-**	410.4
Bank debt facilities		**-**	472.1	**-**	475.0
Swiss franc (CHF) senior notes	2019	**385.6**	718.6	**283.2**	554.9
Domestic medium term notes	2017-2024	**1,418.7**	1,414.2	**1,322.0**	1,314.3
Pound sterling (GBP) senior notes	2018	**514.1**	540.9	**537.5**	537.5
Floating rate notes	2020	**99.7**	99.7	**100.0**	100.0
Euro (EUR) senior notes	2020-2027	**2,202.2**	2,076.1	**2,078.3**	2,078.3
Hong Kong dollar (HKD) senior notes	2020-2028	**527.2**	376.6	**435.0**	287.7
Japanese yen (JPY) senior notes	2024	**62.0**	55.9	**62.6**	62.6
Norwegian kroner (NOK) senior notes	2029	**162.9**	166.8	**159.7**	159.7
US dollar (USD) hybrid securities (ii)	2076	**488.3**	-	**505.7**	-
Singapore dollar (SGD) hybrid securities (ii)	2076	**193.5**	-	**199.6**	-
Total non-current borrowings		**6,054.2**	6,355.3	**5,683.6**	5,980.4
Total borrowings		**6,816.2**	7,132.0	**6,365.7**	6,631.5
less: cash and cash equivalents		**440.2**	739.8	**440.2**	739.8
Net debt		**6,376.0**	6,392.2	**5,925.5**	5,891.7

(i) Face value represents the principal amount that has to be repaid on maturity, excluding any adjustments for loan fees, discounts and interest cash flows. Foreign currency debt is translated at hedged FX rates, with the 100 per cent of debt and its cash flows hedged for foreign currency at draw down.

(ii) The first call date for hybrid securities is September 2021.

Note D.2 Borrowings (continued)

(a) Foreign currency translation

All foreign currency transactions, including foreign currency borrowings, are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items denominated in foreign currencies, including foreign currency borrowings, are translated at the exchange rate existing at that date. Resultant exchange differences are recognised in the income statement for the year, except for exchange differences for qualifying cash flow hedges which are recognised in other comprehensive income. The foreign currency risk associated with our foreign currency borrowings is hedged through the use cross-currency swaps. Refer to Note D.3.

(b) Fair values of financial instruments

We have a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings outlined above, the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 31 March 2016. The fair value of total borrowings as at 31 March 2016 was $7,463.1 million (2015: $7,728.4 million).

(c) Financial covenants

The terms of certain financing arrangements contain financial covenants that require maintenance of specified interest coverage ratios and gearing ratios. However, these covenants only apply if there are adverse changes in credit ratings. In addition, there are change of control and/or ownership and cross default provisions. We monitor and report compliance with our financial covenants on a monthly basis. There have been no breaches during the year.

(d) Other bank guarantees

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The subsidiaries have guarantee facilities with a number of institutions amounting to $15.0 million, of which $4.6 million was provided to third parties at 31 March 2016 (2015: $2.8 million).

Note D.3 Financial risk management

Our activities expose us to a number of financial risks, including:

- Interest rate risk – the risk that we suffer financial loss due to an adverse movement in interest rates on our borrowings or the impact changes in interest rates have on our regulated revenues.
- Currency risk – the risk of AusNet Services suffering financial loss due to adverse exchange rate movements on our foreign currency denominated borrowings.
- Liquidity risk – the risk that an unforeseen event occurs which will result in us not being able to meet our payment obligations in an orderly manner.
- Credit risk – the risk that one or more of our counterparties will default on its contractual obligations resulting in financial loss to us and arises from our financial assets, comprising cash and cash equivalents, trade and other receivables and derivative financial instruments.

We manage our exposure to these risks in accordance with our Treasury Risk Policy which is approved by the Board. The policy is reviewed annually or more regularly if required by a significant change in our operations. Any material changes are submitted to the Board for approval.

The objective of the Treasury Risk Policy is to document our approach to treasury risk management and to provide a framework for ongoing evaluation and review of risk management techniques. The policy provides an analysis of each type of risk to which we are exposed and the objective of and techniques for managing the risk, including identifying and reporting risks to management and the Board.

Our Treasury team evaluates and hedges financial risks in close co-operation with the Group's operating units. The Treasury Risk Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating risks, use of derivative financial instruments and investing excess liquidity.

The Treasury Risk Policy operates in conjunction with several other AusNet Services policies, including:

- The Authority Manual which sets out the approvals required for such things as investment of surplus funds, execution of hedging transactions, borrowings and issue of guarantees and indemnities;
- The Treasury Operations Manual which sets out the day to day Treasury front office processes such as cash management and the operations of the Treasury back office, such as settlement processes and bank account operations;
- The Refinancing and Hedging Strategy which sets out the refinancing and hedging strategies over the relevant financial period; and
- The Credit Metrics Policy which sets out target ranges for the key credit metrics that determine the Group's credit strength, such as the percentage of debt to the value of the R&CAB at balance date.

Together these policies provide a financial risk management framework which supports our objectives of finding the right balance between risk and reward to enhance profitability and business performance while minimising current and future exposures.

The material financial risks associated with our activities are each described below, together with details of our policies for managing the risk.

Note D.3 Financial risk management (continued)

(a) Interest rate risk

We are exposed to the risk of movements in interest rates on our borrowings. In addition, the regulated revenues for the distribution businesses are directly impacted by changes in interest rates. This is a result of the 'building block' approach where interest rates are considered in the determination of the regulatory weighted average cost of capital and consequently regulated revenues. The AER has recently amended its approach to setting the weighted average cost of capital by adopting a Trading Average Portfolio approach. This approach assumes that 10 per cent of the debt for each network is refinanced each year. As such, the weighted average cost of capital is reset each year to take into account this assumed refinancing.

The objective of hedging activities carried out by us in relation to interest rate risk is to minimise the exposure to changes in interest rates by aligning the actual cost of debt with the cost of debt assumed by the regulator. The exposure is managed by maintaining the percentage of fixed rate debt to total debt at a level between 90 per cent and 100 per cent for the relevant business over its regulatory period. We therefore consider net interest rate exposure, after hedging activities, to be minimal for the Group.

We utilise interest rate swaps to manage our exposure to cash flow interest rate risk and achieve the targeted proportion of fixed rates on our debt portfolio. Under interest rate swaps, we agree to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable us to mitigate the risk of changing interest rates on debt held.

As at reporting date, we had the following financial assets and liabilities exposed to interest rate risk. The values disclosed below are the principal amounts, which differ from the carrying values and as such do not agree to the statement of financial position.

	2016	2015
	$M	$M
Financial assets		
Related party receivables (i)	**2,396.2**	2,625.6
Fixed rate instruments	**380.0**	670.0
Floating rate instruments	**50.0**	-
Financial liabilities (ii)		
Fixed rate instruments	**(6,047.8)**	(5,734.7)
Floating rate instruments	**(317.8)**	(896.7)

(i) As the common funding vehicle, the Company lends funds to other entities within the AusNet Services Group, including the Transmission business. Related party interest is charged based on the weighted average interest rate of Company's borrowings for the relevant regulated business. The interest rate is reset quarterly.

(ii) The financial liabilities above include the impact of derivative financial instruments used to manage the interest rate and foreign currency exposures on those liabilities. Therefore, they represent the post-hedge position. It should be noted that some fixed rate borrowings (post-hedge) as at reporting date are only fixed for a portion of their term. This is because the maturity profile of borrowings differs from AER's assumed refinancing profile of the regulated businesses. The remaining portion of this debt will be fixed when the AER resets the cost of debt to cover these periods.

Note D.3 Financial risk management (continued)

(a) Interest rate risk (continued)

Our exposure to changes in interest rates is limited to exposures denominated in Australian dollars due to our policy of mitigating interest rate risk exposure on foreign currency debt. As a result, the sensitivity analysis below has only been performed based on movements in Australian interest rates. As at reporting date, if Australian interest rates had increased and decreased by 0.89 per cent as at 31 March 2016 (2015: 1.50 per cent), with all other variables held constant, post-tax profit and equity would have increased/(decreased) as follows:

	Net profit after tax	Equity after tax (hedge reserve)
	$M	$M
2016		
Increase in Australian interest rates with all other variables held constant	**4.2**	242.7
Decrease in Australian interest rates with all other variables held constant	**(2.2)**	(255.3)
2015		
Increase in Australian interest rates with all other variables held constant	**24.2**	221.9
Decrease in Australian interest rates with all other variables held constant	**(19.4)**	(271.0)

The judgements of reasonably possible movements were determined using statistical analysis of the 95th percentile best and worst expected outcomes having regard to actual historical interest rate data over the previous five years based on the three-month bank bill swap rate. We consider that past movements are a transparent basis for determining reasonably possible movements in interest rates.

Due to our interest rate risk management policies, the exposure to cash flow and foreign currency interest rate risk at any point in time is minimal. Therefore, the impact of a reasonably possible movement in interest rates on net profit after tax is minimal. The impact on equity is due to the valuation change of derivative financial instruments in cash flow hedges. This amount in the hedge reserve is transferred to the income statement when the underlying hedged transaction affects income in order to reflect the hedged position.

(b) Currency risk

We are exposed to currency risk due to funding activities in offshore debt markets as a means of providing cost effective and efficient funding alternatives, as well as a result of undertaking certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters. The objective of our currency risk management program is to eliminate all foreign exchange risk on funding activities and material foreign exchange related transaction risk by utilising various hedging techniques as approved by the Board. Therefore, we consider our currency risk exposure to be minimal.

Note D.3 Financial risk management (continued)

(c) Derivative financial instruments used to hedge interest rate and currency risks

(i) Accounting for financial instruments

The Group designates certain derivative financial instruments as either fair value hedges or cash flow hedges:

	Fair value hedges	**Cash flow hedges**
Objective of the hedge	To mitigate the exposure to changes in fair value of certain borrowings. Fair value hedges are generally fixed rate designated for the terms of borrowings that fall outside of the price review periods for the regulated businesses.	To mitigate the variability in cash flows attributable to variable interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.
Treatment of changes in fair value of qualifying hedges	Recognised immediately in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.	The effective portion is recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in the hedge reserve are recycled in the income statement when the hedged item affects the income statement (generally when the forecast transaction that is hedged takes place). However, when the forecast transaction results in the recognition of a non-financial asset, the gains and losses are transferred from the hedge reserve and included in the measurement of the initial carrying amount of the asset.
Documentation of the hedge relationship	To ensure derivative financial instruments qualify for hedge accounting we document, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as our risk management objectives and strategy for undertaking various hedge transactions. We also document its assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.	
Discontinuation of hedge accounting	Hedge accounting is discontinued when the hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting.	
	After discontinuation, the previously hedged asset or liability is no longer revalued for changes in fair value.	At that time, any cumulative gain or loss existing in the hedge reserve remains in hedge reserve and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedge reserve is immediately recognised in the income statement.

Note D.3 Financial risk management (continued)

(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)

(ii) Accounting policy change - early adoption of AASB 9

AASB 9 *Financial Instruments* was issued in December 2014 and replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 simplifies the classification and recognition of financial instruments, introduces a new expected credit loss model for calculating impairment of financial assets, and aligns hedge accounting more closely with an entity's risk management practices.

We have early adopted AASB 9 from 1 April 2015. The new hedge accounting requirements have been applied prospectively from this date, while the remainder of the requirements of AASB 9 have been applied retrospectively.

The following is a summary of the key accounting policy changes as a result of adopting AASB 9, as well as a description of their ongoing impact on the financial statements.

Item	Accounting policy change	Impact of change
Hedge relationships	Existing hedges under AASB 139 can only continue if they satisfy the requirements for continuing hedge relationships under AASB 9. Risk components that are separately identifiable and reliably measurable are eligible as hedged items, including aggregated exposures. Effectiveness measurement testing is required only on a prospective basis and new criteria on the existence of an economic relationship between the hedged item and the hedging instrument.	We have certain existing cash flow hedges that didn't satisfy the requirements of continuing hedge relationships under AASB 9. These hedges were de-designated on 1 April 2015, with the associated derivative instruments and underlying borrowings redesignated in new cash flow hedges. Certain foreign currency debt previously de-designated under AASB 139 has also been included in these cash flow hedges. The cumulative loss in the hedge reserve on 1 April 2015 has remained in the hedge reserve and will unwind over the life of the hedges. There is no material impact on the income statement as a result of this de-designation and redesignation. It is anticipated that these changes will reduce in future the circumstances under which we recognise hedge ineffectiveness, or discontinue hedge accounting and recognise a de-designation gain or loss.
Foreign currency basis	AASB 9 specifically allows for foreign currency basis spreads to be separated and excluded from the designation of a financial instrument as the hedging instrument.	A number of existing hedge relationships under AASB 139 included foreign currency basis. We have elected to restructure these hedge relationships and separately account for foreign currency basis spreads. The cumulative change in the fair value of foreign currency basis spreads is recognised in other comprehensive income. The currency basis charge included in the original cost of the derivative instrument is recognised in the income statement over the life of the instrument. There is no material impact to the income statement as a result of this change.
Impairment of financial assets	Impairment of financial assets, including trade receivables, is recognised based on the expected credit losses of the assets. These are determined by discounting the weighted average expected future cash flows and comparing to the carrying value of the asset. There is no change in the classification of financial assets as a result of applying AASB 9.	There is no material impact on the income statement or statement of financial position as a result of this change.

Note D.3 Financial risk management (continued)

(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)

(iii) Measurement and classification

We classify our derivative financial instruments between current and non-current based on the maturity date of the instrument. As a result, derivative financial instruments are classified as non-current, except for those instruments that mature in less than 12 months, which are classified as current.

At reporting date, our derivative financial instrument positions are as detailed below:

	Interest rate swaps	Forward foreign currency contracts	Cross-currency swaps	Total net derivative financial instruments
2016	**$M**	**$M**	**$M**	**$M**
Current assets	2.4	0.1	79.1	81.6
Non-current assets	104.4	-	371.9	476.3
Current liabilities	(18.1)	(0.5)	-	(18.6)
Non-current liabilities	(123.4)	(0.4)	(50.5)	(174.3)
Total derivative financial instruments	**(34.7)**	**(0.8)**	**400.5**	**365.0**
Consists of:				
- fair value hedges	93.7	-	90.1	183.8
- cash flow hedges	(128.4)	(0.8)	311.4	182.2
- not in a hedge relationship	-	-	(1.0)	(1.0)
Total derivative financial instruments	**(34.7)**	**(0.8)**	**400.5**	**365.0**
2015				
Current assets	-	0.2	128.8	129.0
Non-current assets	127.8	-	394.8	522.6
Current liabilities	(44.9)	-	-	(44.9)
Non-current liabilities	(192.2)	-	(16.9)	(209.1)
Total derivative financial instruments	**(109.3)**	**0.2**	**506.7**	**397.6**
Consists of:				
- fair value hedges	89.7	-	224.0	313.7
- cash flow hedges	(199.0)	0.2	282.7	83.9
Total derivative financial instruments	**(109.3)**	**0.2**	**506.7**	**397.6**

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the derivative financial instrument is designated and effective as a hedging instrument, in which case the timing of the recognition in the income statement depends on the nature of the hedge relationship.

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. Credit risk is obtained directly from the observable Credit Default Swap curves within Bloomberg for each of the relevant counterparties, with the Bilateral Credit Risk applied uniformly across all asset and liability positions as at the reporting date. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity. The unamortised value of the deferred credit risk adjustment for derivative financial instruments as at 31 March 2016 is $40.3 million (2015: $42.2 million).

Note D.3 Financial risk management (continued)

(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)

Key estimates and judgements – Fair value of derivative financial instruments

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

Derivative financial instruments are recognised at fair value and are measured using market observable data, and where appropriate, are adjusted for credit risk, liquidity risk and currency basis risk. Therefore, they are deemed level two within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

The fair value of derivative financial instruments is determined in accordance with generally accepted pricing models based on discounted cash flow analysis. Fair value is measured using valuation techniques and significant market observable data as well as market corroboration based on active quotes. These include industry standard interest rates, foreign exchange and currency basis yield curves sourced directly from Bloomberg. Appropriate transaction costs are included in the determination of net fair value.

(iv) Offsetting of derivative financial instruments

Derivative assets and liabilities are presented on a gross basis. Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default. Notwithstanding that these financial assets and liabilities do not meet the criteria for being presented on a net basis, if these netting arrangements were applied to the derivative portfolio as at 31 March 2016, derivative assets and liabilities would be reduced by $172.4 million respectively (2015: $215.4 million). Refer to the below table:

	Gross amounts in the financial statements	Amounts subject to master netting arrangements	Net amount
	$M	$M	$M
2016			
Derivative financial assets	557.9	(172.4)	385.5
Derivative financial liabilities	(192.9)	172.4	(20.5)
	365.0	**-**	**365.0**
2015			
Derivative financial assets	651.6	(215.4)	436.2
Derivative financial liabilities	(254.0)	215.4	(38.6)
	397.6	**-**	**397.6**

(v) Cash flow hedges

The following table summarises movement in hedged items and hedging instruments that are designated in cash flow hedges:

	Change in value of hedged item used to measure ineffectiveness (i)	**Change in value of hedging instrument used to measure ineffectiveness** (i)	**Nominal amount of hedging instruments** (i)
Interest rate risk	(128.2)	150.3	11,034.3
Foreign currency risk - debt	47.0	(50.9)	2,362.2
Foreign currency risk - capital expenditure	1.0	(1.0)	60.1

Note D.3 Financial risk management (continued)

(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)

(v) Cash flow hedges (continued)

(i) Nominal amounts represent the total principal in each hedging instrument (derivative) in cashflow hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both cashflow hedges and fair value hedges is $13,150.8 million.

The following movements have occurred in the cash flow hedge reserve during the year, net of income tax:

	2016	2015
	$M	$M
Opening balance of cash flow hedge reserve	**(71.2)**	(57.0)
Amounts recognised in other comprehensive income, net of income tax:		
Changes in fair value of cash flow hedges (excluding foreign currency basis spreads)	**(68.8)**	(66.8)
Amounts reclassified to interest expense for effective hedges	**77.5**	52.6
Revaluation (foreign currency basis spreads)	**(4.2)**	-
Tax effect of the derivatives step up	**(14.1)**	-
Total amounts recognised in other comprehensive income, net of income tax	**(9.6)**	(14.2)
Closing balance of cash flow hedge reserve	**(80.8)**	(71.2)

The following table summarises our cash flow hedges:

	2016	2015
	$M	$M
Highly probable forecast asset purchase:		
Less than 1 year	**(0.4)**	(0.2)
1 - 2 years	**(0.1)**	-
2 - 5 years	**(0.2)**	-
	(0.7)	(0.2)
Borrowings:		
Less than 1 year	**(78.2)**	(36.3)
1 - 2 years	**(43.0)**	(78.4)
2 - 5 years	**(56.1)**	(84.4)
Greater than 5 years	**(157.7)**	(260.4)
	(335.0)	(459.5)

Note D.3 Financial risk management (continued)

(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)

(v) Cash flow hedges (continued)

These amounts will impact the income statement in the same period as cash flows are expected to occur, with the exception of hedges of highly probable forecast transactions which will impact the income statement as the underlying asset is utilised.

(vi) Fair value hedges

The following table summarises the hedged items included in fair value hedges and their input on the financial statements:

	Carrying amount of the hedged item	**Accumulated amount of fair value adjustments on hedged item**	**Gain/(loss) on remeasurement of hedged item**	**Gain/(loss) on remeasurement of hedging instrument**	**Nominal amount of hedging instruments** (i)
AUD denominated borrowings	(1,518.5)	(100.2)	(5.0)	4.9	1,783.0
Foreign currency denominated borrowings	(5,297.7)	(373.5)	131.0	(134.8)	8,021.6

(i) Nominal amounts represent the total principal in each hedging instrument (derivative) in fair value hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both fair value hedges and cashflow hedges total $13,150.8 million.

(d) Liquidity risk

We manage liquidity risk by maintaining adequate cash reserves, committed banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. These practices are governed by our liquidity management policies, which include Board approved guidelines covering the maximum volume of long-term debt maturing in any one year, the minimum number of years over which debt maturities are to be spread and the timing of refinancing. In addition, short-term bank debt and commercial paper must not represent more than an agreed percentage of the total debt portfolio.

The liquidity management policies ensure that we have a well-diversified portfolio of debt, in terms of maturity and source, which significantly reduces reliance on any one source of debt in any one particular year. In addition, our investment grade credit rating ensures ready access to both domestic and offshore capital markets.

Financing facilities will be put in place at least six months before maturity of the debt being replaced or in the case of new debt at least six months before funding is required. “In place” is defined as meaning all documentation has been completed and settlement has occurred or if settlement has not occurred (e.g. committed but undrawn bank debt facilities) funding is committed and is not subject to a material adverse change in the market.

(i) Contractual cash flows

Liquidity risk is managed by us based on net contract and forecast inflows and outflows from operating, financing and investing activities. The following table summarises the contractual cash flows of our non-derivative and derivative financial assets and liabilities based on the remaining earliest contractual maturities. The contractual cash flows are based on undiscounted principal and interest commitments and foreign exchange rates at reporting date.

Note D.3 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

2016	Principal at face value $M	Carrying amount $M	Total contractual cash flows $M	Less than 1 year $M	1 - 2 years $M	2 - 5 years $M	Greater than 5 years $M
Financial assets							
Non-derivative financial assets							
Cash and cash equivalents	440.2	440.2	440.2	440.2	-	-	-
Accounts and other receivables	2,759.6	2,759.6	2,759.6	363.4	-	-	2,396.2
Derivative financial assets							
Interest rate swaps		106.8	123.5	32.6	21.2	48.3	21.4
Cross-currency swaps		451.0	(146.6)	22.6	(35.3)	26.1	(160.0)
Forward foreign currency contracts		0.1					
- Inflow			12.8	10.6	0.2	1.3	0.7
- Outflow			(12.7)	(10.5)	(0.2)	(1.3)	(0.7)
		3,757.7	**3,176.8**	**858.9**	**(14.1)**	**74.4**	**2257.6**
Financial liabilities							
Non-derivative financial liabilities							
Trade and other payables	411.9	411.9	411.9	362.3	49.6	-	-
Domestic medium term notes	1,322.0	1,418.7	1,714.2	84.6	364.0	749.8	515.8
Floating rate notes	100.0	99.7	115.5	3.8	3.6	108.1	-
USD senior notes	410.4	421.1	425.5	425.5	-	-	-
GBP senior notes	537.5	514.1	569.1	33.4	33.4	502.3	-
CHF senior notes	554.9	726.5	734.9	348.8	4.2	381.9	-
HKD senior notes	435.0	527.2	666.8	16.8	16.9	163.5	469.6
JPY senior notes	62.6	62.0	64.9	0.8	0.8	2.4	60.9
EUR senior notes	2,078.3	2,202.2	2,446.1	45.7	45.7	880.4	1,474.3
NOK senior notes	159.7	162.9	221.3	5.6	5.6	16.9	193.2
SGD hybrid securities	199.6	193.5	252.4	10.7	10.7	32.0	199.0
USD hybrid securities	505.7	488.3	644.7	28.2	28.2	84.5	503.8
Derivative financial liabilities							
Interest rate swaps		141.5	173.9	52.5	29.8	31.5	60.1
Cross-currency swaps		50.5	186.3	3.0	2.4	99.8	81.1
Forward foreign currency contracts		0.9					
- Inflow			(46.5)	(37.7)	(3.2)	(5.6)	-
- Outflow			47.6	38.4	3.4	5.8	-
		7,421.0	**8,628.6**	**1,422.4**	**595.1**	**3,053.3**	**3,557.8**
Net cash outflow			**(5,451.8)**	**(563.5)**	**(609.2)**	**(2,978.9)**	**(1,300.2)**

Note D.3 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

2015	Principal at face value	Carrying amount	Total contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Greater than 5 years
	$M	$M	$M	$M	$M	$M	$M
Financial assets							
Non-derivative financial assets							
Cash and cash equivalents	739.8	739.8	739.8	739.8	-	-	-
Accounts and other receivables	3,049.1	3,049.1	3,049.1	423.5	-	-	2,625.6
Derivative financial assets							
Interest rate swaps		127.8	151.4	44.8	27.2	61.7	17.7
Cross-currency swaps		523.6	137.3	122.4	67.1	16.0	(68.2)
Forward foreign currency contracts		0.2					
- Inflow			4.0	3.6	0.2	0.2	-
- Outflow			(3.8)	(3.4)	(0.2)	(0.2)	-
		4,440.5	**4,077.8**	**1,330.7**	**94.3**	**77.7**	**2,575.1**
Financial liabilities							
Non-derivative financial liabilities							
Trade and other payables	1,124.4	1,124.4	1,124.4	405.5	718.9	-	-
Commercial paper	95.0	94.6	95.0	95.0	-	-	-
Bank debt facilities (*)	511.0	508.1	514.5	514.5	-	-	-
Domestic medium term notes	1,314.3	1,414.2	1,789.6	75.3	75.3	819.1	819.9
Floating rate notes	100.0	99.7	119.5	3.7	3.4	112.4	-
USD senior notes	410.4	434.4	452.9	24.6	428.3	-	-
GBP senior notes	537.5	540.9	625.8	34.7	34.7	556.4	-
CHF senior notes	1,075.0	1,364.7	1,398.0	666.5	347.2	384.3	-
HKD senior notes	287.7	376.6	489.6	13.1	13.1	157.9	305.5
JPY senior notes	62.6	55.9	62.0	0.8	0.8	2.3	58.1
EUR senior notes	2,078.3	2,076.1	2,365.0	43.4	43.4	130.2	2,148.0
NOK senior notes	159.7	166.8	234.1	5.8	5.8	17.5	205.0
Derivative financial liabilities							
Interest rate swaps		237.1	278.7	105.8	63.8	39.1	70.0
Cross-currency swaps		16.9	355.2	19.9	18.1	71.6	245.6
Forward foreign currency contracts		-					
- Inflow			(0.6)	(0.2)	(0.2)	(0.2)	-
- Outflow			0.6	0.2	0.2	0.2	-
		8,510.4	**9,904.3**	**2,008.6**	**1,752.8**	**2,290.8**	**3,852.1**
Net cash outflow			**(5,826.5)**	**(677.9)**	**(1,658.5)**	**(2,213.1)**	**(1,277.0)**

Note D.3 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

(*) Bank debt facility drawings are due within the next twelve months and as such have been included within "less than 1 year". However, we have the right to roll over these facilities until they ultimately mature in up to five years from the reporting date.

(ii) Financing facilities

We target a minimum net liquidity, defined as available short-term funds and committed financing facilities. As at reporting date, we had the following committed financing facilities available:

	2016	2015
	$M	$M
Financing facilities (face value)		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
- Amount used	**-**	-
- Amount unused	**2.5**	2.5
	2.5	2.5
Unsecured working capital facility, reviewed annually:		
- Amount used	**-**	36.0
- Amount unused	**100.0**	64.0
	100.0	100.0
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement:		
- Amount used	**-**	475.0
- Amount unused	**775.0**	300.0
	775.0	775.0
Total financing facilities	**877.5**	877.5

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to us and arises from our financial assets, comprising cash and cash equivalents, trade and other receivables and derivative financial instruments.

We have 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 (refer to Note B.2). Our exposure and the credit ratings of our counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties.

Note D.3 Financial risk management (continued)

(e) Credit risk (continued)

In accordance with the Treasury Risk Policy, treasury counterparties each have an approved limit based on the lower of Standard & Poor's or Moody's credit rating. Counterparty limits are reviewed and approved annually by the Audit and Risk Management Committee and any changes to counterparties or their credit limits must be approved by the Chief Financial Officer and the Managing Director and must be within the parameters set by the Board as outlined in the Treasury Risk Policy.

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. At balance date, we had $380.0 million on term deposit and $446.5 million of cross currency and interest rate swaps with 'A' rated or higher Australian and international banks.

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents our maximum exposure to credit risk. The values disclosed below represent the market values in the event of early settlement (in-the-money market values), which differ from the carrying values and as such do not agree to the statement of financial position. The values below exclude any offsetting financial liabilities with the particular counterparty.

	2016	2015
	$M	$M
Financial assets and other credit exposures		
Cross-currency swaps	**433.9**	542.8
USD interest rate swaps	**3.1**	6.2
AUD interest rate swaps	**147.6**	137.7

Note D.4 Net finance costs

	2016	2015
	$M	$M
Finance income		
Interest income	**8.7**	11.0
Interest income – related parties	**121.5**	125.0
Total finance income	**130.2**	136.0
Finance costs		
Interest expense	**338.9**	347.1
Other finance charges – cash	**2.8**	3.1
Other finance charges – non-cash	**5.1**	5.0
Loss/(gain) on fair value hedges	**3.7**	(3.6)
(Gain)/loss on ineffective portion of cash flow hedges	**(18.2)**	8.1
Loss on transactions not in a hedge relationship	**1.1**	-
Unwind of discount on provisions	**2.3**	2.4
Defined benefit net interest expense	**0.6**	-
Capitalised finance charges	**(10.5)**	(11.1)
Total finance costs	**325.8**	351.0
Net finance costs	**195.6**	215.0

Finance income comprises interest income on funds invested and interest on intercompany loans. Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

Finance costs comprise interest expense on borrowings, foreign exchange gains/losses, gains/losses on hedging instruments that are recognised in the income statement, unwinding of discount on provisions and the net interest cost in respect of defined benefit obligations. All borrowing costs are recognised in the income statement using the effective interest rate method, other than borrowing costs directly attributable to a qualifying asset which are capitalised into the cost of that asset.

The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the average interest rate of 4.5 per cent (2015: 6.2 per cent) applicable to our outstanding borrowings during the period.

Note D.5 Equity

	Notes	2016 Shares	2015 Shares
Share capital			
Ordinary shares – fully paid (million)	(a), (b)	**1,063.4**	639.5

(a) Ordinary shares

Ordinary shares authorised and issued have no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of AusNet Services Holdings Pty Ltd in proportion to the number of and amounts paid on the shares issued. Holders of ordinary shares are entitled to one vote on a show of hands or one vote for each ordinary share held on a poll at shareholders' meetings.

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 proceeds.

(b) Movements in ordinary share capital

Date	Details	Number of shares	$M
1 April 2015	Opening balance	639,486,731	640.0
31 May 2015	Share issue (i)	423,875,211	423.9
31 March 2016	**Closing balance**	**1,063,361,942**	**1,063.9**
1 April 2014	Opening balance	639,486,731	640.0
31 March 2015	**Closing balance**	**639,486,731**	**640.0**

(i) Additional equity was injected into AusNet Services Holdings Pty Ltd to enable the settlement of outstanding intercompany tax balance upon restructure of the AusNet Services Group.

Note D.6 Dividends

No dividends were paid and/or approved to shareholders during the financial year (2015: nil).

Section E Group structure

The following section provides information on our structure and how this impacts the results of the Group as a whole, including details of controlled entities, related party transactions and changes made to the Group structure during the year.

Note E.1 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group 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 over the entity. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities within the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

The Group's financial statements incorporate the assets, liabilities and results of the following subsidiaries:

			Equity holding	
Name of entity	**Country of incorporation**	**Class of shares**	**2016 %**	2015 %
AusNet Services Holdings Pty Ltd	**Australia**	**Ordinary**		
AusNet Electricity Services Pty Ltd	Australia	Ordinary	**100**	100
AusNet Asset Services Pty Ltd	Australia	Ordinary	**100**	100
AusNet (No. 8) Pty Ltd	Australia	Ordinary	**100**	100
AusNet (No. 9) Pty Ltd	Australia	Ordinary	**100**	100
AusNet Gas Services Pty Ltd	Australia	Ordinary	**100**	100
Select Solutions Group Pty Ltd	Australia	Ordinary	**100**	100

Note E.2 Parent entity information

(a) Statement of financial position

	2016 $M	2015 $M
Current assets	**144.9**	415.1
Non-current assets	**10,537.7**	10,921.1
Total assets	**10,682.6**	11,336.2
Current liabilities	**294.6**	860.8
Non-current liabilities	**7,512.6**	8,044.4
Total liabilities	**7,807.2**	8,905.2
Contributed equity	**1,063.9**	640.0
Reserves	**(78.1)**	(71.6)
Retained profits	**1,889.6**	1,862.6
Total equity	**2,875.4**	2,431.0

The parent entity has a net current asset deficiency of $149.7 million as at 31 March 2016. The parent entity is considered to be a going concern on the basis that it is, and is expected to continue trading profitably, generating positive cash flows and refinancing maturing debt.

(b) Statement of comprehensive income

	2016 $M	2015 $M
Profit for the year	**27.0**	56.4
Total comprehensive income for the year	**20.5**	(14.6)

(c) Contingent liabilities

The Directors are not aware of any contingent liabilities of the parent entity as at 31 March 2016.

Note E.3 Related party transactions

(a) Major shareholders

The immediate parent of the Company is AusNet Holdings (Partnership) Limited Partnership. The ultimate parent of the Company is AusNet Services Limited, a company incorporated in Australia, which is part of a listed group trading as AusNet Services Ltd.

AusNet Services Ltd has two shareholders with a significant investment and board representation, being Singapore Power International Pte Ltd (SPI) and State Grid Corporation of China (State Grid). SPI's ultimate parent is Temasek Holdings (Private) Limited (Temasek). State Grid has a controlling stake in Jemena Asset Management Pty Ltd (referred to as Jemena).

Under applicable accounting standards, Temasek and its subsidiaries (including SPI) and State Grid and its subsidiaries (including Jemena) are considered to be related parties of AusNet Services Holdings Pty Ltd. These entities are not considered related parties under the *Corporations Act 2001*.

(i) Long-term operational agreement with Jemena

On 29 September 2008, we entered into an agreement with the Jemena Group on a number of operational arrangements. We provide end-to-end metering services, technical services and vegetation management services to the electricity and gas networks owned and managed by Jemena. As part of the agreement, Jemena’s contestable metering customer contracts were novated to us and we took over the responsibility for delivering contestable metering services to those customers.

To ensure continued capital investment and deliver network growth, Jemena was appointed to AusNet Services’ preferred supplier panel, securing resources for the delivery of our capital portfolio.

Each of the above arrangements was for an initial five-year term and was renewed in August 2013 for an additional three year term. The agreements will then continue for further five year terms unless terminated by either party by giving notice to terminate at the end of the current term. The arrangements may also be terminated early by either party in certain circumstances.

(b) Key management personnel

	2016	2015
	$	$
Short-term employee benefits	**6,082,910**	4,612,733
Post-employment benefits	**284,142**	288,763
Equity-based payments	**2,007,639**	1,057,417
Other long-term benefits	**247,199**	168,175
	8,621,890	6,127,088

The remuneration Report contained in the Directors' report contains details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 31 March 2016.

Note E.3 Related party transactions (continued)

(c) Transactions with related parties

We engage in a wide variety of transactions with entities in the Temasek Group in the normal course of business on terms similar to those available to other customers. Such transactions include but are not limited to telecommunication services and leasing of properties. These related party transactions are carried out on terms negotiated between the parties which reflect an arm's-length basis. As a result, transactions with Temasek interests other than the Singapore Power Group have been excluded from the disclosures below.

We also provided electricity distribution services to Jemena. AusNet Services earns a regulated return from the provision of these services as these services are regulated by the AER.

The following transactions occurred with related parties within the Singapore Power and State Grid groups for the entire financial year:

	2016	2015
	$'000	$'000
Sales of goods and services		
Regulated revenue (i)	**4,976**	3,503
Excluded services revenue	**20,354**	46,183
Other revenue	**3**	145
Purchases of goods and services		
Other expenses	**426**	14,435
Property, plant and equipment	**28,446**	20,196

(i) Represents revenues from the provision of electricity distribution services which are regulated by the AER.

The following balances are outstanding at the reporting date in relation to transactions with related parties within the Singapore Power and State Grid groups:

	2016	2015
	$'000	$'000
Current receivables (sale of goods and services)		
Other related parties (i)	**230,371**	10,035
Non-current receivables (loans)		
Other related parties	**2,618,003**	2,625,557
Current payables and other liabilities (purchase of goods)		
Singapore Power entities	**22**	5
Other related parties	**167,162**	10,716
Non-current payables (loans)		
Other related parties	**271,370**	718,915

No allowance for impairment loss has been raised in relation to any outstanding balances due from related parties.

(i) Includes outstanding amounts from the provision of electricity distribution services which are regulated by the AER.

Section F Other disclosures

Note F.1 Remuneration of auditors

During the year the following fees were paid or payable for services provided by KPMG and its related practices:

	2016	2015
	$'000	$'000
Audit services		
Audit and review of financial statements	**1,284**	1,074
Audit of regulatory returns (i)	**421**	443
Total remuneration for audit services	**1,705**	1,517
Other services		
Other assurance, taxation and advisory services	**230**	547
Total remuneration for other services	**230**	547
Total remuneration of auditors	**1,935**	2,064

(i) It is our policy to employ KPMG to perform the audit of regulatory returns as these returns represent an extension of statutory audit services and need to be performed by the same audit firm to gain efficiencies and effectiveness in performing these audits.

Note F.2 Defined benefit obligations

We make contributions to an Equipsuper defined benefit superannuation plan that provides defined benefit amounts to employees or their dependants upon retirement, death, disablement or withdrawal. Benefits are mostly in the form of a lump sum based on the employee's final average salary, although, in some cases, defined benefit members are also eligible for pension benefits.

The defined benefit sections of the Equipsuper plan are closed to new members. All new members receive defined contribution, accumulation style benefits.

The defined benefit superannuation plan is administered by a trust that is legally separated from the Group. The trustees consist of both employee and employer representatives and an independent chair, all of whom are governed by the scheme rules. The trustees are responsible for the administration of plan assets and for the definition of plan strategy.

	2016	2015
	$M	$M
Total amount included in the statement of financial position in respect of the defined benefit plan is as follows:		
Present value of defined benefit obligations	**(183.4)**	(209.6)
Fair value of plan assets	**176.5**	183.1
Net liability arising from defined benefit obligations	**(6.9)**	(26.5)
Amounts recognised in the income statement in respect of the defined benefit plan are as follows:		
Current service cost	**6.0**	5.1
Net interest cost on defined benefit obligation	**0.6**	-
Total	**6.6**	5.1
Remeasurement gains/(losses) recognised during the year in other comprehensive income	**23.3**	(23.5)

Each year we engage an independent actuary to perform actuarial review of the AusNet Electricity Services Pty Ltd defined benefit fund.

Our net obligation in respect of the defined benefit superannuation fund is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and recognised after deducting the fair value of any plan assets.

The discount rate is the yield at the balance date on corporate bonds that have maturity dates approximating the terms of our obligations. A qualified actuary performs the calculation using the projected unit credit method.

Remeasurements comprise actuarial gains and losses and the return on plan assets (excluding interest). They are recognised in full directly in retained profits in the period in which they occur and are presented in other comprehensive income.

When the calculation of the net obligation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

We expect to make contributions of $2.9 million to the defined benefit plan during the next financial year. The Target Funding method is used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level which is expected to result in the plan's assets equalling 105 per cent of the plan's liabilities within five years. The defined benefit superannuation plan exposes us to additional actuarial, interest rate and market risk.

Note F.2 Defined benefit obligations (continued)

(a) Movement in defined benefit obligation

	2016	2015
	$M	$M
Movements in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	**209.6**	163.2
Current service cost	**6.0**	5.1
Interest cost	**5.4**	6.9
Contributions by plan participants	**1.8**	1.8
Actuarial (gain)/loss	**(29.2)**	38.0
Benefits, taxes and premiums paid	**(10.2)**	(9.7)
Transfers in	**-**	4.3
Closing defined benefit obligations	**183.4**	209.6

Movements in the fair value of plan assets were as follows:		
Opening fair value of plan assets	**183.1**	162.2
Interest income	**4.8**	6.9
Actual return on fund assets less interest income	**(5.9)**	14.5
Contributions from the employer	**2.9**	3.2
Contributions by plan participants	**1.8**	1.8
Benefits, taxes and premiums paid	**(10.2)**	(9.7)
Transfers in	**-**	4.2
Closing fair value of plan assets	**176.5**	183.1

The actual return on plan assets was a loss of $1.1 million (2015: gain of $21.4 million).

(b) Analysis of plan assets

Plan assets can be broken down into the following major categories of investments:

	2016	2015
Investments quoted in active markets:	**%**	%
Australian equities	**28**	31
International equities	**22**	24
Fixed income securities	**13**	11
Unquoted investments:		
Property	**10**	9
Growth alternative	**10**	7
Defensive alternative	**10**	10
Cash	**7**	8
	100	100

Plan assets do not comprise any of the Group's own financial instruments or any assets used by Group companies.

Note F.2 Defined benefit obligations (continued)

(c) Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	Defined benefit expense		Defined benefit obligation	
	2016	2015	**2016**	2015
	%	%	**%**	%
Key assumptions				
Discount rate	**2.70**	4.30	**3.50**	2.70
Expected salary increase rate	**4.50**	4.50	**3.80**	4.50

As at 31 March 2016, the weighted average duration of the defined benefit obligation was 9 years (2015: 9 years).

(i) Change in discount rates for employee liabilities

From 30 June 2015, Australian entities are required to use Corporate Bond rates, rather than Government Bond rates, to discount their post-employment benefits and other long-term employee liabilities. This is a change in accounting estimate and as such is applied prospectively. The impact of this change was not material to the profit and loss. However, there was a $20.3 million ($14.2 million after tax) increase in the defined benefit obligation reflected in the other comprehensive income of the Group.

Key estimates and judgements – Defined benefit plans

A number of estimates and assumptions are used in determining defined benefit assets, obligations and expenses. These estimates include salary increases, future earnings and rates of return. Any difference in estimates will be recognised in other comprehensive income and not through the income statement.

The net liability from defined benefit obligations recognised in the consolidated statement of financial position will be affected by any significant movement in investment returns and/or interest rates.

(d) Sensitivity analysis

Changes in the relevant actuarial assumptions as at reporting date, with all other variables held constant, would result in an increase/(decrease) in the value of the defined benefit obligation as shown below:

Defined benefit obligation	**Increase**	**Decrease**
	$M	**$M**
Discount rate (0.5 per cent movement)	(9.4)	10.2
Expected salary increase rate (0.5 per cent movement)	8.3	(7.9)

When calculating the above sensitivity analysis the same method has been applied as when calculating the defined benefit liability recognised in the consolidated statement of financial position.

(e) Defined contributions expense

During the year, we contributed $14.2 million of defined contribution benefit to employees (2015: $11.7 million).

Note F.3 Share-based payments

We provide benefits to some of our employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

The cost of equity settled transactions is recognised over the period in which the conditions are fulfilled (the vesting period), ending on the date that relevant employees become entitled to the award (the vesting date). At each subsequent reporting date until vesting, the cumulative charge to the income statement is in accordance with the vesting conditions.

(a) Long term incentive plan

We have a Long Term Incentive Plan for executives and other senior management identified by the Board. The plan is based on the grant of performance rights that vest into shares at no cost to the employee subject to performance hurdles (refer to the Remuneration Report for further detail). Settlement of the performance rights is made in ordinary shares purchased on-market.

If the employee is no longer employed by us during the performance period, the granted performance rights may be forfeited at the Board's discretion.

Prior to 1 April 2015, our Long Term Incentive Plan grants were cash based and were accounted for as employee provisions. The following grant is the first equity-based grant made by us.

Plan	Period	Grant date	Vesting date	PRs granted	Value of PRs at grant date
LTIP 2016	1/4/15-31/3/18	1 April 2015	31 March 2018	966,684	$966,684

There were no forfeitures/cancellations during the year, resulting in a balance at 31 March 2016 of $966,684. The fair value of each performance right is estimated on the grant date using the Black Scholes model. This model used the following inputs:

	LTIP 2016
Share price at grant date	$1.48
Exercise price	$0.00
Expected volatility	20%
Risk-free interest rate	2.05%
Dividend yield	6.00%
Expected life of performance rights	36 months

The expected volatility is based on the Group's historical volatility and is designed to be indicative of future trends, which may also be the actual future outcome.

An expense of $0.3 million has been recognised for the year ended 31 March 2016 in relation to this equity-settled share-based payment.

Note F.4 Contingent liabilities and contingent assets

We are not aware of any contingent liabilities or assets as at 31 March 2016.

Note F.5 New accounting standards not yet adopted

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which may impact us in the period of initial adoption. They were available for early adoption for the Group's annual reporting period beginning 1 April 2015, but have not been applied in preparing this financial report:

- AASB 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and associated Interpretations. AASB 15 is effective for annual reporting periods beginning on or after January 2018, with early adoption permitted. The impact of this standard has yet to be quantified by the Group.

- AASB 16 *Leases* will require the recognition of all leases for a lessee on-balance sheet, with limited exceptions for short-term and low value leases, thereby removing the off-balance sheet treatment currently applied to operating leases. In addition, lease expenses will be recognised as depreciation and interest expenses and will result in the front-loading of expense recognition compared to the current straight-line model. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. The impact of this standard has yet to be quantified by the Group.

There are also other amendments and revisions to accounting standards that have not been early adopted. These changes are not expected to result in any material changes to our financial performance or financial position.

Note F.6 Events occurring after the balance sheet date

(a) Change in Directors

Charles Popple resigned as Director of the Group effective 1 April 2016. Susan Taylor was appointed as Director effective 1 April 2016.

(b) Other matters

Other than listed above, there has been no matter or circumstance that has arisen since 31 March 2016 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- the operations in financial years subsequent to 31 March 2016 of the Group;
- the results of those operations; or
- the state of affairs, in financial years subsequent to 31 March 2016, of the Group.

Directors' declaration

In the opinion of the Directors of AusNet Services Holdings Pty Ltd (the Company):

(a) the financial statements and notes set out on pages 29 to 79, and the remuneration disclosures that are contained in the Remuneration report set out on pages 12 to 25 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 March 2016 and of its performance for the financial year ended on that date.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Section A; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.

Nino Ficca
Managing Director

Melbourne
11 May 2016

KPMG

Independent auditor's report to the members of AusNet Services Holdings Pty Ltd

Report on the financial report

We have audited the accompanying financial report of AusNet Services Holdings Pty Ltd (the Company), which comprises the consolidated statement of financial position as at 31 March 2016, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, Sections A to F.6 comprising significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In section A, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 March 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Section A.

Report on the remuneration report

We have audited the Remuneration Report included in pages 12 to 25 of the directors' report for the year ended 31 March 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of AusNet Services Holdings Pty Ltd for the year ended 31 March 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Paul J McDonald

Paul McDonald
Partner

Melbourne

11 May 2016