AusNet services

ANNUAL REPORT 2017

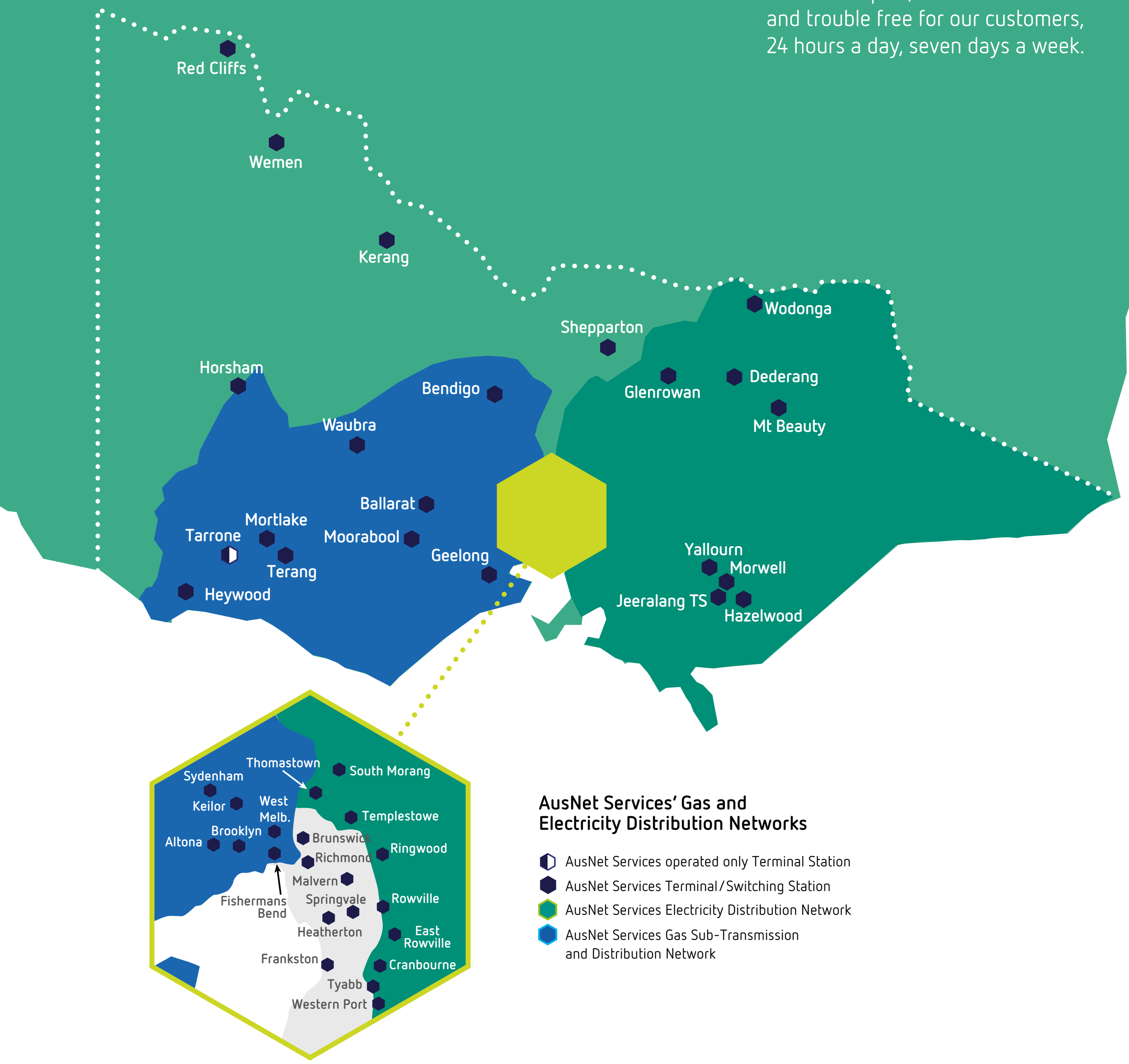
ABOUT US

AusNet Services delivers safe and reliable gas and electricity to more than 1.3 million customers.

We are an Australian energy delivery services business, owning and operating approximately $11 billion of electricity and gas network assets.

We have more than 2,200 employees working across our regulated networks and for our newly formed Commercial Energy Services business. We are developing products and services to empower customers to have more control of their energy usage.

Although the business of moving energy can be complex, our aim is to make it safe and trouble free for our customers, 24 hours a day, seven days a week.



AusNet Services' Gas and Electricity Distribution Networks

- AusNet Services operated only Terminal Station
- AusNet Services Terminal/Switching Station
- AusNet Services Electricity Distribution Network
- AusNet Services Gas Sub-Transmission and Distribution Network

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Corporate Governance Statement

Our Corporate Governance Statement and Infrastructure Entity Statement are available on our website: https://www.ausnetservices.com.au/Investor-Centre/Company-reports

2017 HIGHLIGHTS

Revenue
↓2.0%
$1,881.5m

Regulated and contracted asset base
↑5%

Dividends
↑3%

Cash flow
↑4.6%

Lowest ever injury frequency rate
6.6

New customers
↑28,919

EBITDA
↓6.1%
$1,073m

Decrease in customer complaints
↓53%

Five-year financial summary

	2013	2014	2015	2016	2017
Revenue ($M)	1,639.5	1,799.4	1,833.9	1,919.0	1,881.5
EBITDA ($M)	975.5	1,017.4	1,047.2	1,142.5	1,073.3
EBIT ($M)	651.2	647.7	668.0	750.2	647.4
Profit for the year ($M)	273.5	178.3	22.6	489.3	255.1
Total assets ($M)	10,082.2	10,612.3	12,063.3	11,676.0	11,756.5
Total borrowings ($M)	5,277.2	6,069.2	7,216.1	6,897.7	6,665.3
Total equity ($M)	3,437.1	3,444.6	3,248.8	3,557.8	3,698.4
Net debt to asset base (%)	68.1%	68.6%	67.5%	67.2%	67.9%
Net gearing (%)	58%	62%	66%	64%	63%
Interest cover (times)	2.5	2.5	2.9	3.0	3.2
Dividend (cents)	8.20	8.36	8.36	8.53	8.80*
Earnings per share (cents)	8.37	5.28	0.66	13.95	7.15
Capital expenditure ($M)	881.4	950.0	809.4	822.7	839.6
Operating cash flows ($M)	568.6	730.2	767.6	710.0	742.8

* Excludes 1 cent per share special dividend

CHAIRMAN'S MESSAGE

Delivering shareholder value as we embrace the future

" Our focus is on driving efficiency and performance excellence, while pursuing growth opportunities."

We are pleased to present the 2017 Annual Report, outlining our results and outlook. I would also like to take the opportunity to thank shareholders for their support for AusNet Services.

In my first 12 months as Chairman, our company has been responding to the new energy environment while increasing value for shareholders.

While our energy networks continue to combine more renewable and distributed energy, such as batteries and rooftop solar, with traditional generation, the national energy debate has shifted to security, reliability and affordability.

We believe there needs to be a consistent, collaborative and national approach to climate and energy policy so Australians have access to affordable, reliable and sustainable energy.

Now more than ever it's imperative that AusNet Services participates vigorously in the debate.

Advocacy is an increasing focus for us and we are taking a leading role in the debate. In my time as Chairman, I have been connecting with industry and government stakeholders as well as meeting with investors and shareholders to discuss these issues and our response.

OUR FIVE YEAR STRATEGY

We launched our five year strategy, Focus 2021, in April 2016. It is our response to the new energy environment, which is characterised by technological advancements, heightened public and political scrutiny, shifting customer expectations and changing roles and responsibilities in the energy market.

The central objective of our strategy is to deliver sustainable returns for our shareholders through investment in our regulated and contracted asset base with an emphasis on cost management.

We are doing this by leading network transformation, growing commercial services, generating trust and respect with customers and delivery partners, and driving efficiency and effectiveness across the company.

We have set challenging targets to operate all three networks in the top quartile of industry efficiency benchmarks, and to grow the contracted energy infrastructure asset base to $1 billion by 2021.

FINANCIAL PERFORMANCE

This year we delivered a sound financial performance, increasing cash flow from operations and increasing returns to our shareholders.

In May 2017, Directors approved a final 2017 dividend of 5.4 cents per share, comprising a final ordinary dividend of 4.4 cents (unfranked), and a 1.0 cent special dividend (unfranked). The special dividend arose as a result of lower than expected income tax payable for the 2017 year.

Total dividends for the full year amounted to 9.8 cents, which represents a 3.2 per cent increase (excluding the special dividend).

Our 12 month Total Shareholder Returns to 31 March 2017 was 21 per cent, compared to 8 per cent in the previous year.

Cash flow was $743 million, up from $710 million from the previous year.

Compared to last year, revenues decreased 2 per cent to $1,881 million. This decrease is due to lower returns allowed by the regulator in the 2016–20 Electricity Distribution Price Review (EDPR) and lower metering revenues under the new metering price regime within the EDPR.

A number of non-recurring costs were incurred in 2017. These included the impact of severe storms encountered in October 2016, and redundancy and restructuring costs associated with business efficiency initiatives (which included execution of an IT outsourcing program).

Efficiency benefits of $47 million were realised in 2017 (comprising operating and capital expenditure savings), reflecting our ongoing effort and focus on cost management. We remain confident of delivering increased cost savings in 2018.

As a result of lower revenues and the impact of one-off items, Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was $1,073.3 million, a decrease of 6.1 per cent.

Net Profit After Tax (NPAT) was $255.1 million, down 47.9 per cent. This decline primarily relates to one-off tax benefits recognised in 2016, associated with the corporate restructure and completion of Australian Tax Office disputes.

AusNet Services invested $839 million in growing its regulated and contracted asset base by approximately 5 per cent in 2017. Asset base growth is funded from a mix of strong operating cash flows, external debt and dividends reinvested by shareholders. In terms of our debt portfolio, we continue to pursue funding diversity in terms of source and maturity, successfully raising approximately $900 million of debt at competitive rates.

Our diversified debt portfolio and prudent financial settings continue to support the long term maintenance of our A-range credit rating and our asset base growth.

BOARD GOVERNANCE

During the year, we implemented changes to the composition of the Board and membership of the Board committees.

Additionally, in November 2016, the Board welcomed Dr Nora Scheinkestel as an Independent Non Executive Director. Dr Scheinkestel brings more than 20 years' experience as a company director across a number of sectors including the utility sector.

At the July 2017 Annual General Meeting, Non Executive Director, Ms Tina McMeckan will not seek re-election and will therefore retire from the Board. On behalf of the Board, I would like to express my gratitude for Ms McMeckan's contributions especially as the Chair of the Audit and Risk Management Committee and Remuneration Committee and as a member of the Nomination Committee.

LOOKING AHEAD

As we execute the second year of our five-year Focus 2021 strategy, our focus will be on driving efficiency and performance from our core regulated energy network businesses, while pursuing growth opportunities in our commercial energy services business.

The changing energy market is presenting exciting opportunities for our business.

AusNet Services will play an integral role in shaping our industry's future. As the energy sector transforms, so will we.

In closing, I would like to thank our shareholders, customers, employees, fellow Directors and management for their role in AusNet Services' ongoing transformation.

On 20 July 2017, AusNet Services will hold its Annual General Meeting in Melbourne. All shareholders are invited to attend.

Peter Mason, AM
Chairman

MANAGING DIRECTOR'S REPORT

Delivering strong returns while growing a modern agile business

" Empowering communities and their energy future."

As the Chairman highlights, the external business drivers are stronger than ever, reinforcing the need for more commitment to transforming the industry and our own business so we can empower communities and their energy future.

As more customers embrace new technologies, driving changes in electricity use and network design, Governments and Regulators are responding with evolving rules and regulatory frameworks.

This past year, energy security has become a major theme, following the South Australian blackout and the closure of the Hazelwood coal-fired power station.

In response, the Federal Government established the Finkel Review, aimed at energy security and developing a national reform blueprint for the National Electricity Market (NEM), which is expected to deliver further change in the energy sector.

Any change will need to address reliability, affordability and sustainability – or what has been termed the energy 'trilemma'.

In an industry that has experienced only a moderate amount of change until recently, the new paradigm is driving utilities to explore innovative ways to support communities' energy needs and for us to remain focused on delivering value from the core regulated energy network business, while pursuing growth opportunities in commercial markets.

SAFETY

Our relentless commitment to zero injuries was again demonstrated, with the safety of our people and customers remaining at the forefront of everything we do.

The Recordable Injury Frequency Rate (RIFR) was 6.6, down from 6.9 the previous year. It represents the lowest ever recorded RIFR since our missionZero safety program was launched in 2011.

A number of health and safety activities, including an emphasis on critical risk management, contributed to the result through continually improving the critical risk controls aimed at preventing or reducing the risk of serious injury from electrocution, customer aggression, working alone and manual handling.

As part of the State Government's Powerline Bushfire Safety program, the first of 22 Rapid Earth Fault Current Limiters was installed.

This technology will further improve the safety of our electricity distribution network and reduce bushfire risk.

FOCUS 2021 – A ROADMAP FOR OUR FUTURE

This year we began delivering on our five year Focus 2021 strategy – a targeted approach toward shaping our future.

Generating trust and respect with customers remains a key strategic pillar, driving our transformation to become a customer-focused business.

As part of this, we set up our structure to align with our strategic initiatives. This involved establishing Commercial Energy Services (CES) alongside our Regulated Energy Networks.

As part of driving efficiency and effectiveness, we delivered $47 million in savings, largely achieved, by the implementation of our Enterprise Resource Planning System which streamlines systems and processes, saving time and money.

To further lower costs and provide better customer value, we partnered with specialist providers for some IT and transactional support functions.

Another initiative was consolidating our customer service functions into one central 'hub' to reduce costs, improve efficiency and increase service levels for our customers.

BUSINESS PERFORMANCE

AusNet Services is Australia's largest ASX-listed regulated energy infrastructure company with forecast regulated asset base growth of approximately 3 per cent per annum to 2020.

From a regulated perspective, our electricity transmission and gas distribution networks are currently two of the most efficient networks and work continues to move our electricity distribution business into the top quartile of the most efficient electricity distribution businesses in Australia.

While our electricity transmission revenues remained steady year on year, our electricity distribution revenue decreased almost 10 per cent, mainly due to lower returns allowed by the regulator under the 2016–2020 Electricity Distribution Price Review (EDPR) and introduction of a new metering revenue regime under the EDPR.

In October 2016, over 80,000 electricity customers lost supply due to a gale force storm – the worst in eight years. As a result, we recognised an $8 million post-tax impact for Guaranteed Service Levels payments.

Our gas distribution network experienced higher revenues mainly due to a 4.5 per cent tariff increase for calendar year 2016, $10 million in billing adjustments and new connections up 2.3 per cent.

Strong results were recorded from CES, with revenue up 14.8 per cent on the previous year. This result reflects momentum in the non-regulated side of our business, which is focused on owning contracted infrastructure assets, delivering niche asset and energy data intelligence services while looking to innovate into new business models.

DELIVERING SAFE AND RELIABLE ENERGY

As part of our transition to become a customer-centric business, we introduced improved services, and upgraded electricity and gas assets to ensure we continued delivering reliable energy for our communities.

Transforming our networks was strengthened with the launch of our Mooroolbark Mini Grid and our partnership with Totally Renewable Yackandandah. These exciting initiatives demonstrate how our business is embracing and optimising new opportunities as customers' energy usage changes.

Two major projects were completed: the Brunswick Terminal Station rebuild and the AMI metering program.

With the Victorian Government deferring metering competition until January 2021, we are now in a position to deliver significant efficiency and customer benefits from the meters and the associated mesh network.

We launched enhanced tools for our customers including a web-based outage tracker, a new and more customer-friendly website and an SMS service alerting customers in advance of planned outages while keeping customers informed about unplanned outages.

New gas pipelines in Winchelsea and Avoca were switched on under the State Government's Regional Gas Infrastructure Program. These are providing 1,300 new customers in regional Victoria access to gas.

We also submitted our Gas Access Arrangement Review for 2018–22 that will determine our revenue for the next period. The final determination is due late 2017.

THE YEAR AHEAD

In the year ahead, we will build on the solid platform that year one of Focus 2021 established.

We are focused on the performance of our people, processes and systems, as well as increasing the efficiency of our business.

As part of this, we will strive towards operating all three core networks in the top quartile of efficiency benchmarks, target $1 billion in contracted energy infrastructure assets and continue to grow our business through contracted infrastructure assets and services.

As we work towards creating a modern energy delivery company with a diverse portfolio, we will continue safely delivering reliable and affordable energy for our customers.

Mr Nino Ficca
Managing Director

SAFETY, THE PILLAR FOR A HEALTHIER AND MORE PRODUCTIVE WORKPLACE

Working safely is a core value at AusNet Services and in the communities in which we operate. Our missionZero strategy supports this by focusing on safety leadership, safe behaviour, continuous improvement in safety systems and a commitment to safer workplace environments.

Significant injuries

↓33%

on previous year

CONTINUALLY IMPROVING OUR SAFETY STANDARDS

Since launching missionZero, our Recordable Injury Frequency Rate (RIFR) has reduced by almost 40 per cent, from 10.5 in April 2011 to 6.6 in March 2017, which is our lowest ever recorded result.

The FY2017 RIFR result was driven by a continued focus on improved hazard and near miss reporting, faster corrective action timelines and other safety plan initiatives. These initiatives have assisted our business to mitigate the risks associated with tasks that have the potential to result in significant injury.

AN EMPHASIS ON HEALTH AND SAFETY

The health and safety focus remained strong with an emphasis on critical risk management. To support ongoing improvements in this area, 267 AusNet Services leaders attended critical risk training specifically on the identification of critical risk controls. In addition, 235 people attended the introductory missionZero course.

A major part of critical risk management is hazard and near miss reporting and corrective actions. These initiatives assisted the business to reduce the number of significant injuries by 33 per cent. In addition, the number of recordable injuries sustained per million hours worked reduced by 4.6 per cent from 6.9 to 6.6.

Looking ahead, there will be a focus on four key areas: critical risk controls, updating missionZero programs, auditing current activities to ensure they align to our objectives and health and wellbeing.

These areas are designed to strengthen our safety leadership, drive improvement in safety culture maturity and reduce the risk of injury to our people.

COMMUNITY SAFETY

Each year we aim to outperform the regulatory benchmark set to help reduce the risk of fire starts and to reduce the risk of loss of damage caused by fires (F-factor). In FY2017 we outperformed the target by 17 per cent.

IMPROVING SAFETY ACROSS THE NETWORK

Installation of leading-edge technology has started across AusNet Services' electricity network as part of extensive work to reduce the risk of powerline-related bushfires.

The technology, known as Rapid Earth Fault Current Limiter or REFCL, will be progressively installed in 22 high bushfire risk areas during the next six years. It's part of a government-mandated program.

The technology was trialled in collaboration with the Victorian Government in 2014 at United Energy's Frankston South Zone Substation and in 2015 at AusNet Services' Kilmore South Zone Substation.

In 2016, the first full scale REFCL was installed at the Woori Yallock zone substation servicing the surrounding areas, including Warburton and Healesville. It began operating early in 2017.

This year, the bushfire mitigation technology is scheduled to be installed at the Rubicon and Barnawartha zone substations.

The initiative is part of a broader program aimed at improving safety across power assets.

Works to underground powerlines and replace equipment in areas of high-fire risk are continuing.

Senior Project Manager REFCLs
Rina Bessaron

REAL TIME DATA AT CUSTOMERS' FINGER TIPS

In a rapidly changing energy landscape, high-quality customer service is essential to the success of our business.

Our purpose is to empower communities and their energy future.

It acknowledges that customers are the focus of what we do. It also points to the changing relationship between our customers – as individuals and communities – and the energy they use and, increasingly, generate.

During the year, AusNet Services worked to improve customer focus in three areas: customer engagement, customer enablement and customer culture.

In the area of customer engagement, the successful establishment of a Customer Consultative Committee (CCC) has brought representatives of customer groups, including business and community sectors, into the company on a regular basis. The CCC has proved a valuable conduit for two-way exchanges on a wide range of issues and greatly contributed to better understanding among all parties regarding the challenges and opportunities that exist in the energy sector.

Customer experience was enhanced with the rollout of new digital tools. A new customer-friendly website was launched and continues to be refined, while initiatives such as the digital Outage Tracker, accessible online and by mobile phone, are greatly improving the speed, accuracy and accessibility of critical customer information.

In the area of customer culture, the creation of the AusNet Services Customer Hub saw a diverse group of customer-facing functions consolidated into one team at a single location. The Customer Hub provides a consistent, integrated service for customers, while improving efficiency and enabling the sharing of expertise.

DELIVERING A BETTER CUSTOMER EXPERIENCE

In 2017, there was a greater focus on customer experience, leading to significant improvements in key customer service indices.

Major increases were achieved in the customer satisfaction measures of Customer Complaints Index and Estimated Time to Restoration, (planned outage over-runs), leading to 'outperform' results for both measures in FY2017.

During the year, the number of customer complaints decreased by around 25 per cent.

Meeting our published Estimated Times to Restoration (ETRs) also showed a 51 per cent year-on-year improvement in this measure.

This was due to increased resource allocation. In particular, the establishment of a task force to monitor, analyse and improve the relevant processes and practices.

We also reduced the number of escalated complaints, as shown in the table below. The largest category, complaints about planned outages, decreased by 53 per cent, compared to the previous year.

THE DECREASE IN ESCALATED CUSTOMER COMPLAINTS BY CATEGORY

Escalated complaint category	% decrease 2016–2017
Tree clearing down	70
Access to property	65
Truck visit fee	61
Gas mains renewal reinstatement	60
Asset location	55
Planned outage complaints	53
Outage frequency	48

Overall, there was stronger performance across the customer-facing functions of the organisation during the year.


Pictured: Sandra and Denis Comi

BECOMING A DIGITAL UTILITY

AusNet Services is focused on becoming a 'digital utility', delivering greater services for customers and improving efficiency and growth within our business.

To drive this transition, we have formed a digital and innovation function.

As a first step, we are improving our customer experience. This has been achieved through the delivery of a new website and a customer calculator designed to provide instant price estimates for new and upgraded electricity supply requests or asset relocation work.

We also delivered the outage tracker (www.outagetracker.com.au) that allows customers to find up-to-date information on planned and unplanned outages in our electricity distribution area.

In FY2018, we will continue to bring our digital vision to life. This includes establishing digital platforms to underpin technological evolution and change across the organisation.

Our priorities include:

> Empowering customers by providing the ability to gain richer insight of their energy use and allow us to engage through multiple channels.

> Improving employee productivity, efficiency, work quality and satisfaction by delivering collaboration and information sharing platforms enabling our people to work at a location of their choice.

> Supporting the transformation of the network through projects like Mooroolbark Mini Grid and Smart Metering projects. These projects enable the provision of safe, reliable and efficient energy services to communities while improving work efficiency and network analytics.

By embracing digital transformation AusNet Services will lead the industry into an exciting new future.

SHAPING AN AGILE WORKFORCE

21%
women in workplace
↑1%

30%
women in talent pool
↑5%

A strong and agile workforce is key in the delivery of our strategy and response to evolving customer needs.

To achieve this, we are investing in the right capability mix across the organisation to provide strong strategic management to business support services.

During the year we focused on building high performing leadership capabilities and culture through targeted training, streamlining processes and increasing diversity and inclusiveness.

THE EVOLUTION OF SWITCHED ON LEADERSHIP

The second phase of 'Switched On Leadership', a program designed to drive a culture of accountability, transparency, high performance and excellence, was rolled out to 350 executive, strategic, operational and frontline leaders. This phase was designed to provide a consistent approach to leading and executing change programs in a dynamic operating environment.

SETTING A ROBUST PERFORMANCE AND DEVELOPMENT FRAMEWORK

We reviewed our Performance and Development Framework, including the short term incentive plan, to align to our Focus 2021 corporate strategy.

The refreshed framework sets the foundation for continuous improvement opportunities and transparency for individual performance with the aim to promote better business outcomes.

BUILDING A MORE DIVERSE AND INCLUSIVE WORKPLACE

Diversity, particularly gender diversity, and inclusiveness was again a focus area for the business.

Consistent with the previous year, the number of women in the workplace increased one per cent. Although this is a slight increase, the number of women in the total talent pool increased by five per cent from the previous year.

Twenty women participated in the annual Women's Career Development Program, bringing the total number of participants to more than 120 women over the last six years. This program focuses on enhancing career development skills and building a community to network and share insights, support each other, reflect and shape career planning.

Other initiatives included divisional diversity action plans, flexible working arrangements and increasing the number of women shortlisted for vacant roles. Last year, 58 per cent of all roles had a female shortlisted, resulting in a female being hired for more than half of the vacant roles.

In addition, the Board has an objective that the proportion of female board directors is at least 30 per cent.

PREPARING FOR LEADERS IN A MODERN ENERGY WORLD

As part of our commitment to increasing the pipeline of diverse future leaders, five female students participated in the FY2017 Engineering Vocation Program through RMIT and Deakin University.

Two third-year female RMIT students and five first-year female Deakin University students have been granted scholarships as well as vocational work and mentoring. We also recruited a female PhD student to conduct research in the important network safety field of non-destructive pole testing.

For the first time, AusNet Services has partnered with RMIT to offer Women in Geospatial Science Scholarships for first-year students, with the aim to increase female participation in this significantly under-represented field.

STRONG EMPLOYEE ENGAGEMENT THROUGH GEESP

In 2016, eligible employees could buy shares in AusNet Services Ltd as part of the fifth annual General Employee Exempt Share Plan (GEESP). The participation rate was again high with an overall participation rate of almost 40 per cent. The consistently high participation rate, whereby employees own a stake in the company in which they work, is a good example of the company's employee engagement initiatives.

GEOMATIC TECHNOLOGIES (GT) HAS PARTNERED WITH RMIT TO INTRODUCE THE NEW WOMEN IN GEOSPATIAL SCIENCE SCHOLARSHIP PROGRAM

The scholarship aims to attract more women to the heavily under-represented geospatial science and surveying disciplines.

In 2016, women accounted for five per cent of the intake in surveying and 20 per cent in geospatial science across RMIT's two geospatial courses, equating to a combined 11 undergraduate female students.

GT is pleased to welcome Zoe Hille as the inaugural GT Women in Geospatial scholarship recipient.

Since completing her high school education, Zoe has begun her first year of studies in RMIT's Surveying undergraduate course.

The initiative will also actively build the talent pipeline for GT, with work placement opportunities to be offered to scholarship recipients.

GT is proud to be aligned with increasing young women in the geospatial industry.

Pictured: Dr Alice Kesminas, Claire Knauth, Zoe Hille and Marie Slako

FY2018 GENDER DIVERSITY TARGETS

To challenge ourselves to achieve a step change in gender diversity in our workforce, we have set targets to be reached by 2022. They are:

- **An increase in the total number of women in the workplace to 30 per cent**
- **Total senior management 40 per cent**
- **Total engineering roles 25 per cent**

SWITCHING ON NATURAL GAS

In March 2017, Avoca's residential and business owners were connected to natural gas for the first time.

The 16.5kms of gas pipeline means that more than 700 locals will be able to enjoy the benefits of natural gas for cooking, heating and hot water systems, replacing bottled gas, electricity and fire wood as energy sources.

Avoca joins two other regional towns, Winchelsea and Huntly, that AusNet Services has connected to natural gas under the State Government's 'Regional Gas Infrastructure' program. Bannockburn will be the final town in our network switched on to natural gas in 2018.

Pictured: Avoca resident Lyn Mather, with AusNet Services Geoff Thorn

SUPPORTING OUR COMMUNITIES

AusNet Services empowers communities through sponsorships and donations and leads the way in promoting a rewarding career in engineering to women.

The hallmark of AusNet Services' community sponsorship plan is the Community Development Fund (CDF). Since 2009, we have been offering communities across our network grants to the value of $40,000 each year. This year, we were proud to run CDFs in Strathbogie and the Yarra Ranges.

AusNet Services continued its sponsorship of Brunswick Zebras Football Club by providing funding to upgrade the paths and lighting around the grounds to make it safer for the community.

OUR PEOPLE PRIORITISE DONATIONS AND VOLUNTEERING

Each year, the Community Cornerstone program recognises the volunteering efforts of our employees. The program allows 60 employees who volunteer at least 20 hours per year for a not-for-profit organisation with an opportunity to be awarded a $500 grant to donate to the organisation in which they volunteer.

Our employees also demonstrate their giving spirit through a salary sacrificing arrangement. In 2016, donations totalled nearly $30,000 to the following organisations:

- Peter MacCallum Institute
- RSPCA
- Salvation Army
- Seeing Eye Dogs Australia
- Very Special Kids
- PLAN International

A PIPELINE OF TECHNICALLY-MINDED PEOPLE

AusNet Services continued to partner with Victorian Energy Education Training (VEET). VEET offers Year 10 to 12 students across Gippsland an opportunity to gain a better understanding of electricity and engineering studies that can set them on a rewarding career path locally.

The first three 'Women in Power Engineering' scholarship holders completed their first year of electrical engineering studies at Deakin University. Meanwhile, Geomatic Technologies awarded the first 'Women in Geospatial Engineering' scholarship at RMIT in an effort to increase female representation in these vastly under-represented fields.

Pictured: Tomorrow Today Foundation Executive Officer, Pat Claridge, receiving the cheque from Lee Walter and Student Wellbeing Coordinator, Cathy Hair

NETWORKS OF THE FUTURE

Our response to the energy revolution

The energy sector is experiencing a period of unprecedented change: rapid technological development, increased customer energy awareness and control, with a growing range of alternative energy sources that will result in multi-directional and more dynamic energy flows in the grid.

We are working to anticipate and shape the future of energy.

LEADING NETWORK TRANSFORMATION

We are delivering on our strategic initiative of leading network transformation and embracing change by proactively integrating early technologies through projects such as the Mooroolbark Mini Grid.

This neighbourhood mini grid trial is designed to increase understanding of how a mini grid interacts with the main power grid.

The trial has recently launched a customer web-portal to the participating 14 customers. The web-portal provides participating households real time visibility of how their home is being powered – whether via solar, battery storage, the grid or a mix – and provides measures of the level of electricity stored in a battery or being exported to the grid.

AusNet Services also successfully separated and re-integrated the mini grid from the main grid. This enabled the mini grid to function as an independent, unified renewable energy system.

In support of our operational work to anticipate the networks and energy solutions of the future, we are pursuing a progressive regulatory, policy and industry strategy with policy decision makers and other key stakeholders.

SMART METERING – PROVIDING NEW CUSTOMER SERVICES

The smart meter program was completed in March 2017, with AusNet Services meeting all regulatory obligations and enabling remote services across the entire meter fleet.

AusNet Services is now leveraging this smart metering technology to improve the network's reliability and efficiency, and to provide enhanced services to our customers.

Near real-time communications allow us to respond faster to customer requests and complete in a matter of minutes what used to take hours.

In 2016 we began using smart meters to perform remote services, such as connections and disconnections, with nearly 80 per cent of eligible services now performed remotely. This also means customers can connect faster and can export the solar energy they generate.

We continue to develop ways for customers to monitor and understand how they use electricity. The myHomeEnergy portal allows customers to view their energy usage, while a Solar Alert application notifies solar customers via SMS when their systems stop working. Around 12,000 customers are using the portal.

Smart meter data also enables us to: detect outages sooner; recognise potential issues before they develop into an outage; plan changes to the network based on real time data; target network changes with greater accuracy and to locate faults more accurately so that unplanned outages can be resolved faster.

ENERGY SECURITY

The state-wide blackout in South Australia in September 2016 has increased scrutiny and public commentary on energy security across the National Electricity Market (NEM).

As Victoria's Transmission Network Service Provider with a crucial interconnection to South Australia, AusNet Services has actively contributed both to the operational challenges and policy debate on the issues and the implications for the NEM.

Our operational response to the South Australian event was designed to ensure security of supply to South Australia, maintaining the Victorian/South Australian Interconnection in service throughout the extreme event, although it was disconnected from the South Australian end. We also activated an Emergency Restoration System, supplying six emergency tower restoration kits to assist with repairs to the tower failures in SA and deferred scheduled works in order to support supply to SA. We continue to work with the Australian Energy Market Operator (AEMO) to explore ways to support supply into South Australia and the broader NEM.

KEY HIGHLIGHTS

During the year, the refocused business has delivered a number of key commercial projects:

> Completion of the acquisition of the Mortlake Terminal Station from Origin Energy: an asset that aligns to AusNet Services' core portfolio.

> The launch of the Mondo (TM) Power brand to position mini grid products and services to empower customers reduce their energy bills, maximise their renewable energy generation and increase control of their energy consumption.

> The launch of a commercial mini grid trial at the Aquarevo development in Lyndhurst, in collaboration with South East Water and Villawood Properties, will explore the commercial viability of deploying mini grids in new residential developments.

> AusNet Services' Commercial Energy Services team has participated in establishing a global energy accelerator program, Free Electrons, with other global utilities. The program will provide energy start-ups the opportunity to participate in business mentoring and development from major utilities across the globe, giving AusNet Services a unique opportunity to share and learn from entrepreneurs and other established global utilities participating in the program.

As part of our advocacy strategy, we are actively contributing to the public debate on energy security. Our submission to the Federal Government's Independent Review into the future security of the NEM and stakeholder engagement has been central to this, and we are advocating for early implementation of our recommendations.

MEETING AND ANTICIPATING CUSTOMER NEEDS

Our electricity and gas distribution networks continue to expand to meet customer growth. During the year, we connected 13,808 new electricity customers and 15,111 new gas customers, an increase of 2 per cent and 2.29 per cent respectively. This has mostly been driven by the continued population increase in Victoria's growth corridors.

During the year, supply reliability for customers in our electricity distribution network deteriorated by 25 per cent, largely due to major storms that affected AusNet Services distribution network. Our gas network also experienced a deterioration in reliability of 10 per cent due to an increasing trend in meter and regulator leaks, however this translates to a 4 second annual outage increase for the average gas customer and remains well within our corporate 1 minute per customer target.

Planning for longer-term population growth and demand patterns is central to our major upgrade projects at Terminal Stations across Melbourne. Known as Project Edison, upgrades and augmentations to the Brunswick, Richmond and West Melbourne Terminal Stations will meet the demand across the Melbourne CBD and inner suburbs into future decades. A key milestone in the Brunswick Terminal Station upgrade was reached in March 2017 – the completion of all electrical works. This means that an additional 65,000 customers are benefiting from safe and reliable electricity.

The gas network has also undergone capacity investment during the year. We completed two extensions of natural gas to the regional towns of Winchelsea and Avoca as part of the Victorian Government's Regional Gas Infrastructure Program.

A major construction project was the upgrade of the Corio City Gate, the sole supply of gas to Geelong and surrounding nearby coastal towns. This includes the supply to approximately 150,000 residential customers and some of AusNet Services' largest industrial customers including Viva Refinery, Alcoa, Godfrey Hirst, Boral and Ford. This is a crucial upgrade of infrastructure nearing 50 years old and will secure reliability and avoid supply risk.

GROWTH IN COMMERCIAL SERVICES

During the year, the Commercial Energy Services business was established to deliver a step change in growth to unregulated utility services:

> **Infrastructure Services** bringing together three commercial services offerings in Connection Infrastructure, Telecommunications and Technical Solutions.

> **Asset Intelligence** combining core expertise with technology and data analytics solutions.

> **Utility and Metering Solutions** incorporating Select Solutions' national field services and contestable metering functions, the focus is on opportunities in data analytics and energy management.

> **Emerging Energy Markets** leveraging innovation to design new energy business models with a view to commercialise products.

Pictured: Ron and Helen Boulton with Mark Judd

SUPPORTING A COMMUNITY'S ENERGY FUTURE

AusNet Services' purpose of empowering communities and their energy future has been put into action in a town in Victoria's north east.

Our Commercial Services Business has partnered with the Totally Renewable Yackandandah (TRY) group to develop a community mini grid. TRY is aiming to have the town powered with 100 per cent renewable energy.

A mini grid is a group of households equipped with energy generation such as solar panels and storage capability such as batteries. Through the technology, the households can function as a unified energy community using the grid to share power and optimise their renewable energy use.

In February over 250 residents attended information sessions about the mini grid and how they could get involved.

WELCOME TO THE FINANCIAL REPORT

Contents

DIRECTORS' REPORT

The Directors of AusNet Services present their report on the general purpose financial report of the consolidated entity for the financial year ended 31 March 2017 (FY2017).

The financial report is for AusNet Services Ltd and its controlled entities (we, us, our, AusNet Services or the Group).

What we do

We are an energy delivery services business, conducted through our electricity distribution, gas distribution and electricity transmission businesses. 24 hours a day, we move energy safely, reliably and efficiently to over a million Australians through our networks of assets, services, people and solutions. In addition, through our commercial energy services business we provide unregulated infrastructure, 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;

> Select Solutions Group Pty Ltd; and

> AusNet Transmission 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**

AusNet Services Ltd
ACN 603 317 559

Financial Report
For the financial year ended 31 March 2017

Financial Statements

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

AusNet Services 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 Ltd's operations and its principal activities is included in the Directors' report.

The financial report was authorised for issue by the Directors on 15 May 2017.

OUR BOARD OF DIRECTORS

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

FROM LEFT TO RIGHT: Tan Chee Meng, Sally Farrier, Sun Jianxing, Tina McMeckan, Peter Mason AM, Ralph Craven, Nino Ficca, Robert Milliner, Nora Scheinkestel, Ho Tian Yee.

PETER MASON AM

Independent Chairman (appointed March 2016. Chairman from 11 May 2016)

Qualifications

Bachelor of Commerce (First Class Honours), University of New South Wales
Master of Business Administration, University of New South Wales
Honorary Doctorate, University of New South Wales

Experience and expertise

Mr Mason is a Director of Singapore Telecommunications Ltd (SingTel), a Senior Advisor to UBS Investment Bank, a Trustee of the Sydney Opera House Trust, Chairman of The Centre for Independent Studies, Chairman of the UBS Australia Foundation and a Director of The University of New South Wales Foundation.

Mr Mason has been Chairman and a Director of a number of listed companies including Chairman of AMP Limited and Chairman of David Jones Limited. Mr Mason has over 40 years' experience in investment banking. He was a member of the Council of the University of New South Wales for 13 years. For 12 years he was a Director of the Children's Hospital in Sydney and Chairman of the Children's Hospital Fund for eight years. Mr Mason was appointed a Member of the Order of Australia for his contribution to the Children's Hospital.

Other current listed company directorships

Singapore Telecommunications Ltd (from 2010) (SGX-ST listed company)

Former listed company directorships in last three years

AMP Limited (2003 to 2014)
David Jones Limited (2007 to 2014)

Special responsibilities

Chairman of the Board (from 11 May 2016)
Chairman of the Nomination Committee

NINO FICCA

Managing Director (appointed September 2005)

Qualifications

Bachelor of Engineering (Electrical – Honours), Deakin University
Graduate Diploma in Management, Deakin University
Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Ficca has over 30 years' experience in the energy industry, including numerous senior management roles with AusNet Transmission Group Pty Ltd (formerly SPI PowerNet Pty Ltd) including as Managing Director since 2003.

Mr Ficca is the Chair of Energy Networks Association Limited, a Director (and immediate past Chairman) of CIGRE Australia and Chair of the Deakin University Engineering Advisory Board. He was formerly Deputy Chairman and Director of the Energy Supply Association of Australia.

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Managing Director

RALPH CRAVEN

Non-executive Director
(appointed January 2014)

Qualifications

Bachelor of Engineering (Electrical – First Class Honours), University of Queensland
Doctor of Philosophy, University of New South Wales
Postgraduate Diploma in Management, Deakin University
Postgraduate Diploma in Information Processing, University of Queensland

Experience and expertise

Dr Craven has served on the boards of listed and unlisted companies for over 10 years. He has broad experience in energy, resources, infrastructure and agribusiness, having worked in these sectors for more than 35 years.

His professional background encompasses electricity and gas businesses, mining, commodities trading, and the management of large scale system operations at the national level and the delivery of major infrastructure projects.

Dr Craven is the current Chairman of Stanwell Corporation Limited, the largest electricity generation company in Queensland. His prior directorships include being Chair of Invion Limited and Non-executive Director and Chair of the Audit Committee of Mitchell Services Limited and a Director of Windlab Limited. He was formerly Chair of Ergon Energy Corporation Limited, Tully Sugar Limited and Deputy Chair of Arrow Energy Ltd. At the end of 2015 he completed a six year term as Director of the International Electrotechnology Commission (IEC) and Chair of the IEC National Committee of Australia. Dr Craven was CEO of Transpower New Zealand Limited and also held senior executive positions in Shell Coal Pty Ltd and NRG Asia Pacific Limited.

Other current listed company directorships

Senex Energy Limited (from 2011)
Genex Power Limited (from 2015)

Former listed company directorships in last three years

Invion Limited (2011 to 2015)
Mitchell Services Limited (2011 to 2014)

Special responsibilities

Member of the Audit and Risk Management Committee and the Nomination Committee.

SALLY FARRIER

Independent Non-executive Director
(appointed January 2014)

Qualifications

Bachelor of Chemical and Process Engineering (First Class Honours), University of Canterbury, New Zealand
Masters of Business Administration, Victoria University of Wellington, New Zealand
Post Graduate Diploma in Finance and Investment Analysis, Securities Institute of Australia

Experience and expertise

Ms Farrier is a professional non-executive director and corporate adviser specialising in the utilities and infrastructure sectors. She has extensive experience in the Australian energy industry and has held numerous expert roles in relation to water resources at Australian federal and state levels. Ms Farrier has served as a National Water Commissioner and as a member of the Victorian Water Trust Advisory Council. In addition, she has an active interest in innovation and supporting women entrepreneurs.

Her prior directorships include Meridian Energy Limited, Manidis Roberts Pty Limited, Hydro Tasmania and Western Power. Ms Farrier was also a founding director of Farrier Swier Consulting Pty Limited.

Other current listed company directorships

None

Former listed company directorships in last three years

Meridian Energy Limited (2012 to 2016)
(New Zealand Stock Exchange Listed Company)

Special responsibilities

Chairman of the Remuneration Committee and member of the Nomination Committee.

HO TIAN YEE

Non-executive Director
(appointed September 2008)

Qualifications

Bachelor of Arts (Economics), Portsmouth University, UK
Master of Business Administration, University of Chicago, USA

Experience and expertise

Mr Ho is the MD of Pacific Asset Management (S) Pte Ltd, and an Advisor to Blue Edge Advisors Pte Ltd. His previous employment and board membership includes Bankers Trust Company, Singapore and Singapore Power Limited. He currently serves as a non-executive director of DBS Group Holdings Ltd, DBS Bank Ltd and Mount Alvernia Hospital, and non-executive Chairman of Fullerton Funds Management Company Limited. He was recently appointed as member of the Urban Renewal Authority of Singapore (URA) Investment Committee.

Other current listed company directorships

DBS Group Holdings Ltd (from 2011)
(SGX-ST listed company)
DBS Bank Ltd (from 2011)
(SGX-ST listed company)

Former listed company directorships in last three years

None

Special responsibilities

Member of the Remuneration Committee and member of the Nomination Committee.

OUR BOARD OF DIRECTORS continued

TINA McMECKAN

Independent Non-executive Director (appointed August 2010)

Qualifications

Bachelor of Liberal Arts & Science, San Diego State University, USA
Master of Business Administration, University of Melbourne

Experience and expertise

Ms McMeckan is a Director of the Global Carbon Capture and Storage Institute and the Cooperative Research Centre for Spatial Information. She is a former Chair of the Centre for Eye Research Australia and a former Director of Circadian Technologies Ltd, Metlink Victoria Pty Ltd, Viscorp Limited and the National Board of Norton Rose law firm. Ms McMeckan was previously an executive manager with GPU PowerNet and the SECV Energy Traders, and a project manager with the Victorian Department of Treasury and Finance on gas industry reform.

Other current listed company directorships

None

Former listed company directorships in last three years

Circadian Technologies Limited (now Opthea Limited) (2008 to 2015)

Special responsibilities

Chairman of the Audit and Risk Management Committee, member of the Remuneration Committee and Nomination Committee.

ROBERT MILLINER

Independent Non-executive Director (appointed July 2015)

Qualifications

Bachelor of Commerce, University of Queensland
Bachelor of Laws (Honours), University of Queensland
Master of Business Administration, University of Western Australia
Advanced Management Program, Harvard Business School, USA

Experience and expertise

Mr Milliner is a Senior Adviser, International Affairs at Wesfarmers Limited, Senior Adviser at UBS and Senior Adviser to the International Chamber of Commerce Secretary General. He is a Director of the Global Infrastructure Hub Ltd, Chairman of the Board of the Foundation for Young Australians and a Director of the Australian Charities Fund. In 2013 and 2014 he was the B20 Australia Sherpa and coordinated the international business community's recommendations to the 2014 G20. From 2004 to 2011 he was Chief Executive Partner of law firm Mallesons Stephen Jaques (now King & Wood Mallesons) and retired from Mallesons in January 2012 after 28 years as a partner.

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Member of the Audit and Risk Management Committee, Remuneration Committee and Nomination Committee.

NORA SCHEINKESTEL

Independent Non-executive Director (appointed 18 November 2016)

Qualifications

Bachelor of Laws (Honours), Melbourne University
PhD, Melbourne University
Centenary Medal

Experience and expertise

Dr Scheinkestel is an experienced Company Director with more than 20 years' experience as a non-executive Chairman and Director of companies in a wide range of industry sectors including the public, government and private sectors.

Her executive background is as a senior banking executive in international and project financing. She currently consults to government, corporate and institutional clients in areas such as corporate governance, strategy and finance.

Her prior directorships include AMP Limited and its funds management and banking subsidiaries, Insurance Australia Group Limited, Mayne Pharma Limited, Orica Limited, Newcrest Mining Limited, and Pacific Brands Limited.

Dr Scheinkestel is an Associate Professor at the Melbourne Business School at Melbourne University, a Trustee of the Victorian Arts Centre Trust and is a former member of the Takeovers Panel. In 2003, she was awarded a centenary medal for services to Australian society in business leadership.

Other current listed company directorships

Macquarie Atlas Roads Limited (from 2014)
Macquarie Atlas Road International Limited (from 2015)
Telstra Corporation Limited (from 2010)
Stockland Corporation Limited (from 2015)

Former listed company directorships in last three years

Orica Limited (2006 to 2015)
Insurance Australia Group (2013 to 2014)

Special responsibilities

Member of the Audit and Risk Management Committee and the Nomination Committee.

SUN JIANXING

Non-executive Director
(appointed January 2014)

Qualifications

Bachelor of Engineering,
Northeast Dianli University, China

Experience and expertise

Mr Sun is a Non-executive Director of ElectraNet and Co-Chair of International Cooperation Department, State Grid Corporation of China (SGCC).

His previous roles include Head of SGCC Australia Representative Office, Deputy CEO of State Grid Energy Development Company Ltd, Deputy General of Materials & Equipment Supplying Department, SGCC, and Chief Engineer of State Grid Shenzhen Energy Developments Ltd and Division Chief of International Cooperation Department, SGCC. In his early years, Mr Sun also worked as a Senior Engineer at the China General Institute for Electric Power Planning and Designing.

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Member of Remuneration Committee and Nomination Committee.

TAN CHEE MENG

Non-executive Director
(appointed 11 May 2016)

Qualifications

Bachelor of Engineering (Honours),
University of Canterbury, New Zealand
Bachelor of Laws (Honours),
National University of Singapore, Singapore
Master of Laws (First Class),
University of Cambridge, UK

Experience and expertise

Mr Tan is a Director of Singapore Power Limited and Chairman of that company's Nominating Committee and a member of its Executive and Audit Committees. He also sits on the boards of The Arts House Ltd, Singapore Urban Redevelopment Authority and St Gabriel's Foundation. He is the Chairman of the School Management Committee of Assumption English School.

Mr Tan spent his earlier career as a civil engineer before becoming a qualified legal practitioner holding offices of Deputy Senior State Counsel and Deputy Public Prosecutor in both the civil and criminal divisions of the Attorney-General's Chambers, and Deputy Director of the Commercial Affairs Department in Singapore. Mr Tan joined private practice in 1993, and was appointed Senior Counsel in 2006. He is currently the Deputy Chairman of WongPartnership LLP.

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Member of the Audit and Risk Management Committee and Nomination Committee.

FORMER DIRECTORS

NG KEE CHOE

(resigned 11 May 2016)
Former Chairman

OUR EXECUTIVE LEADERSHIP TEAM

The persons listed below were members of the AusNet Services Executive Leadership Team during the whole of the financial period and up to the date of this report, unless stated otherwise.

NINO FICCA

Managing Director

Role

As Managing Director, Mr Ficca manages the AusNet Services' operations and provides strategic guidance and direction to the Board to ensure that the company achieves its mission and objectives.

CLAIRE HAMILTON

Executive General Manager, Governance and Company Secretary

Bachelor of Arts (Business Studies – Honours), University of Sheffield, UK
Chartered Accountant (ICAEW)
Graduate Certificate in Innovation and Service Management, RMIT
Certificate in Governance Practice, Governance Institute of Australia

Role

Ms Hamilton is responsible for the legal, company secretarial, risk management, security and internal audit functions of AusNet Services.

Experience and expertise

Ms Hamilton has over 18 years' experience in the energy industry in risk management, internal audit and corporate accounting roles. Prior to joining AusNet Services, Ms Hamilton gained extensive external audit and advisory experience while working as a chartered accountant in both the UK and Australia. Ms Hamilton is a Non-executive Director of the Energy and Water Ombudsman (Victoria) and the Institute of Internal Auditors Australia. Ms Hamilton is a graduate of the Australian Institute of Company Directors course.

CHAD HYMAS

Executive General Manager, Commercial Energy Services

Bachelor of Business (Accounting), Monash University
Bachelor of Arts (Organisational Psychology), Monash University
Master of Business Administration, Deakin University
Certified Practising Accountant (ASCPA)

Role

Mr Hymas is responsible for the growth and strategic direction of the commercial energy services business which includes unregulated infrastructure services, emerging energy markets, utility and metering services and asset intelligence services.

Experience and expertise

Mr Hymas has extensive strategy, operations and finance experience in the energy sector, having worked for TXU, SPI Electricity and AusNet Services, since 2001. Having held numerous positions within AusNet Services, Mr Hymas was most recently General Manager Strategy and Business Development, leading a broad range of strategic initiatives in strategy, transformation and business development. Mr Hymas began his career at Arthur Andersen, followed by various financial roles for Motorola Australia & New Zealand.

GERALDINE LESLIE

Executive General Manager, People, Safety & Customer

Bachelor of Arts,
University of Wollongong
Master of Business Administration,
University of Wollongong

Role

Ms Leslie manages the human resources, health, safety environment and quality, corporate affairs and customer functions for the Group, known as the People, Safety & Customer Division.

Experience and expertise

Prior to joining AusNet Services in 2009, Ms Leslie worked at BlueScope Steel for almost nine years, holding senior HR leadership roles, including General Manager Human Resources for BlueScope's Australian Coated and Industrial Markets. Her background also incorporates various senior executive and leadership roles in the public health sector and local government.

ROBERT AMPHLETT LEWIS

Executive General Manager, Strategy & Performance (appointed 1 July 2016)

Bachelor of Science (Economics and Politics – Honours), University of Bath, UK
Graduate Diploma in Management, Australian Institute of Management

Role

Mr Amphlett Lewis is responsible for managing the development and implementation of the corporate strategy, business planning and the performance management unit.

Experience and expertise

Mr Amphlett Lewis has more than 15 years' experience in energy markets and utilities infrastructure in Australia and the United Kingdom. Before becoming the Executive General Manager – Strategy and Performance, he was the Head of Strategic Investments and has held senior roles in regulation and planning. Mr Amphlett Lewis' career at AusNet Services has spanned across two periods separated by roles as a Mergers and Acquisitions Advisor in professional services. Before moving to Australia, Mr Amphlett Lewis was an energy trader with TXU European Trading based in the United Kingdom.

ADAM NEWMAN

Executive General Manager and Chief Financial Officer

Bachelor of Business, Western Australian Institute of Technology (now Curtin University)
Post Graduate Diploma of Business,
Curtin University
Graduate Diploma in Applied Finance,
Securities Institute of Australia
Chartered Accountant

Role

Mr Newman is responsible for all key financial and financial reporting functions as well as Procurement, Investor Relations, Treasury, Insurance and Tax.

Experience and expertise

Mr Newman joined AusNet Services in 2013, having held numerous financial and operational roles at BlueScope Steel in Australia and the United States, including as General Manager, Commercial Australia and New Zealand, President Steelscape Inc. and CFO North America. Prior to joining BlueScope, Mr Newman worked at BHP from 1996 to 2001 in Corporate Strategy, mergers and acquisitions and Business Development. Mr Newman is a Chartered Accountant who also worked with Coopers & Lybrand's Corporate Advisory group from 1989 to 1996 in both Perth and London.

OUR EXECUTIVE LEADERSHIP TEAM continued

ALISTAIR PARKER

Executive General Manager,
Regulated Energy Services

Bachelor of Engineering (Honours),
Aston University, UK
Master of Business Administration,
Lancaster University, UK

Role

Mr Parker is responsible for the Regulated Energy Services portfolio of businesses including three regulated energy networks, regulatory strategy, asset management, metering and service delivery.

Experience and expertise

Mr Parker has more than 25 years' experience in the energy industry with a focus on network strategy, asset management and network regulation. Mr Parker joined AusNet Services in 2009 as Director, Regulation and Network Strategy prior to being promoted to General Manager – Asset Management. Before moving to Australia, Mr Parker spent 15 years with National Grid, UK, initially as an engineer, then moving into commercial roles. In 2000, he became a consultant with Ernst & Young in New Zealand before moving to PricewaterhouseCoopers in Australia, ultimately as Melbourne Energy Economics Practice Leader.

MARIO TIEPPO

Executive General Manager,
Technology

Bachelor of Business (Accounting),
Philip Institute of Technology
Certified Practicing Accountant (ASCPA)
Senior Member, Australian Computer Society

Role

Mr Tieppo manages organisationally aligned technology strategies and architecture to support the Group's long-term goals. Mr Tieppo also leads technology investments to improve operational effectiveness and digital innovation.

Experience and expertise

Mr Tieppo has more than 25 years' experience in Information Technology (IT), building IT functions and leading large business change programs. Mr Tieppo joined AusNet Services in 2013, following his role as Chief Information Officer for SA Power Networks. He has also held senior management positions in the government, postal utilities, retail and logistics sectors. In previous positions, Mr Tieppo has been responsible for strategy and planning, program and project management and the management of critical information systems. Mr Tieppo also has a strong financial background as a Certified Practicing Accountant in the areas of financial management, audit and procurement.

STRATEGY

FY2017 was the first year of our 'Focus 2021' Corporate Strategy. The strategy has been designed to respond to the new energy environment, which is characterised by a wave of industry change, focused on modernisation and transformation of the energy value chain. This new environment is changing quickly, symbolised by technological advancements, heightened regulatory scrutiny, higher customer expectations and changing roles and responsibilities in the energy market.

In FY2017, we made significant changes to how we operate. The organisation restructured into two operating business units, Regulated Energy Services and Commercial Energy Services, which are supported by corporate functions. This change focuses on delivering outcomes for customers, as well as reflecting each businesses performance requirements.

The 'Focus 2021' Corporate Strategy accelerates our efforts to:

> **lead network transformation** and embrace change;

> **grow commercial services**;

> **drive efficiency and effectiveness** throughout the portfolio to maximise value; and

> **generate trust and respect** with customers and partners to **build our reputation** with all stakeholders.

A core objective of our strategy is to deliver sustainable and growing returns to shareholders, through continued investment in our regulated and contracted asset base, with a continued focus on cost management. The key initiatives of our 'Focus 2021' Corporate Strategy are:

> to grow our contracted energy infrastructure asset base to $1 billion; and

> to operate all three core networks in the top quartile of efficiency benchmarks.

Our asset base for both the core regulated networks and contracted businesses provides significant and predictable long-term cash flows, enabling maintenance of prudent and sustainable financial settings, as well as continuing to achieve a strong investment-grade credit rating.

OUR CORPORATE SCORECARD

Our FY2017 performance is summarised in the Company's Corporate Scorecard below, which provides an overview of annual results, measured against key performance indicators (KPIs) that drive our transformation journey. The 'Review of operations' section that follows provides further detail of our financials. Items marked as N/A in FY2016 are new items in our Corporate Scorecard in FY2017.

FINANCIAL

PERFORMANCE MEASURE	FY2017	FY2016
EBITDA ($M)	1,073.3	1,142.5
Return on equity (%)* (ROE)	7.0	14.0
Maintain 'A' range credit metrics	A range	A range
Cash flow from operations ($M)	742.8	710.0
ERP system benefits delivery ($M)	37.8	N/A
Select Solutions EBITDA ($M)**	28.4	22.3

KEY ACHIEVEMENTS AND CHALLENGES

EBITDA is down 6.1 per cent from lower revenues due to the lower risk free rate in the first year of the Electricity Distribution Price Review (EDPR) as well as reduction in metering revenues.

ROE was similarly impacted by the revenue reduction as well as the one-off tax consolidation outcomes which added approximately 5 per cent to ROE in FY2016.

Cash flow from operations increased principally due to lower tax and metering rebate payments in FY2017.

ERP system benefits delivered relate to both capex and opex cost savings achieved in FY2017.

Select Solutions EBITDA improved following revenue growth in the water and gas services sector.

BUSINESS & ASSET

PERFORMANCE MEASURE	FY2017	FY2016
Service Standard ($M)	14.0	N/A
Productivity measure (%)	0.0	N/A
Metering program delivery on time and on budget	✓	N/A
Metering program compliance and functionality	✓	N/A

KEY ACHIEVEMENTS AND CHALLENGES

Our networks earned $14.0 million in service standard revenues across various incentive schemes, in line with our target.

Productivity is based on a series of inputs and outputs associated with our network, the key drivers being capex and opex. We did not achieve our target of >4.4 per cent improvement due to higher than targeted expenditure across our three networks.

The metering program completed ahead of schedule and cost in FY2017 and achieved the required compliance and functionality levels.

* Excludes the impact of hedge accounting de-designation

** The Select Solutions EBITDA performance noted above is before the allocation of corporate overheads

SAFETY

PERFORMANCE MEASURE	FY2017	FY2016
HSEQ index achievement	80	60
F-factor scheme (# of fire incidents)	133	120

KEY ACHIEVEMENTS AND CHALLENGES

The HSEQ Index target, measuring four elements (RIFR, near miss reporting, close out of corrective actions and injury severity) was not achieved due to a number of LTIs and MTIs although the index improved considerably on prior year. The HSEQ Index target is 100.

The internal target of ground and asset fires (≤ 160) was achieved, which was considerably below the regulatory benchmark (F-factor) of 186. This performance was achieved predominantly through our significant safety enhancement programs.

PEOPLE

PERFORMANCE MEASURE	FY2017	FY2016
Voluntary turnover of talent (%)	6.3	3.6

KEY ACHIEVEMENTS AND CHALLENGES

This KPI measures two elements – general voluntary turnover (40% of index) and the resignation of those employees identified within our talent pool (60% of index). Our target of less than 4.1 per cent was not achieved, with higher turnover resulting from our internal restructure and change activities occurring across our business.

CUSTOMER

PERFORMANCE MEASURE	FY2017	FY2016
Network customer index score	85	80

KEY ACHIEVEMENTS AND CHALLENGES

85 per cent of the targeted 100 Network Customer Index Score was achieved. We continue to focus on company-wide safety, efficiency, reliability and customer response improvement initiatives.

REVIEW OF OPERATIONS

We derive most of our earnings from three regulated energy network businesses, which include Victoria's high voltage electricity transmission network, an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria.

$M	FY2017	FY2016	Movement	%
Revenue	1,881.5	1,919.0	(37.5)	(2.0)
EBITDA	1,073.3	1,142.5	(69.2)	(6.1)
NPAT	255.1	489.3	(234.2)	(47.9)
Adjusted NPAT[1,2]	**255.1**	**326.2**	**(71.1)**	**(21.8)**

1. The year ended 31 March 2016 adjusted NPAT excludes one off tax benefits of $163.1 million comprising of $135.0 million tax benefit arising from the restructure of the Group and tax benefit of $28.1 million arising from the settlement of the IP dispute with the Australian Taxation Office (ATO).
2. Adjusted NPAT is a non-IFRS measure that has not been subject to audit or review.

During FY2017 we undertook an organisation-wide restructure. As a result, new lines of business were created and the operating segments have changed. Comparative information has been restated for the new operating segments. A summary of our revenues and results by operating segment for the financial year ended 31 March 2017 is set out below.

ELECTRICITY TRANSMISSION BUSINESS

$M	FY2017	FY2016	Movement	%
Segment revenue	586.0	590.1	(4.1)	(0.7)
Segment result – EBITDA	381.4	381.3	0.1	–
Capital expenditure)	192.2	241.6	(49.4)	(20.4)

EBITDA was flat despite a decrease in revenue arising from the negative price path in the Transmission Revenue Reset (TRR) Determination for the 2014–2017 period. The reduction in operating expenditure reflects $3.7 million of non-recurring costs in relation to legal and other administrative costs associated with the implementation of the corporate restructure and the Section 163AA dispute with the ATO incurred in the prior year. Cost savings achieved were largely offset by $5.2 million of expenditure relating to redundancy, restructuring and program implementation costs associated with business efficiency initiatives.

Easement tax represents approximately 54 per cent of total operating expenses and is reflected as a pass-through item in our revenues.

Capital expenditure decreased $49.4 million, of which $45.9 million relates to the completion of upgrade works at Brunswick Terminal Station.

The other major project is the Richmond Terminal Station (RTS) rebuild, which spent $38.6 million of capital expenditure (in line with prior year). RTS remains on track for completion in CY2018 and is approximately 70 per cent complete.

An additional $7.0 million depreciation charge was recognised in relation to the early decommissioning of three synchronous condensers. The synchronous condensers were identified as assets no longer required and while regulatory revenue for this early decommissioning will be received over the coming five year period, accounting standards require that assets are fully depreciated when retired. Early decommissioning of transmission assets is also expected to increase depreciation by approximately $10 million in FY2018 following revision of useful lives.

ELECTRICITY DISTRIBUTION BUSINESS

	FY2017	FY2016	Movement	%
Segment revenue ($M)	868.2	963.6	(95.4)	(9.9)
Segment result – EBITDA ($M)	467.7	575.9	(108.2)	(18.8)
Volume (GWh)	7,682	7,662	20	0.3
Connections	705,186	691,378	13,808	2.0
Capital expenditure ($M)	427.0	467.3	(40.3)	(8.6)

The largest contributor to the fall in revenue is the 5.7 per cent decline in CY2016 electricity distribution tariffs and the 36.8 per cent ($54.2 million) decline in metering revenue arising from the 2016–2020 EDPR determination. Electricity distribution is subject to a revenue cap with true-up mechanisms that impact future period revenues. Refer below for details regarding the application of the revenue cap.

The decline in metering revenues is due to the lower business as usual capex and opex allowance in the 2016–2020 EDPR period as compared to the establishment costs in the metering roll-out period. In addition, there was a downward adjustment due to higher excess expenditures in prior year tariffs as part of the EDPR determination. This was reflected in CY2016 tariffs.

While our cost focus and transformational activities helped achieve a $6.4 million reduction in operating expenses, our reported operating expenses increased $12.8 million (3.2 per cent) due to a number of significant events:

- $8.5 million (regulated energy services total of $17.3 million) of redundancy, restructuring and program implementation costs, associated with business efficiency initiatives;
- $10.5 million of costs related to the impact of the October 2016 storm events that resulted in loss of electricity for over 80,000 customers, predominately due to additional guaranteed service level (GSL) payments to electricity distribution customers. GSL payments are recovered through

the regulatory price regime, with a time lag such that these particular GSL payments will not be recovered until the next EDPR period.

- a further $2.7 million increase in GSL payments during the period, in addition to the October 2016 storm events, due to an increase in both number of events and the rate paid under the current EDPR;
- $7.5 million (primarily non-cash) write-off for an IT project recognised during the period (total write-off $9.3 million); offset by;
- $10.0 million of insurance deductible in the prior year representing settlement costs and legal fees relating to the 2014 bushfires at Yarram and Mickleham.

Capital expenditure has decreased primarily due to $30.7 million lower spend on the metering program. The IT stabilisation and rollout of the wireless mesh communications network under the metering program is now complete, meeting all regulatory obligations at 31 March 2017.

FUTURE REVENUE IMPACTS

We recognise revenue for distribution services as those services are provided, based on the prevailing tariffs at the time. Our two regulated businesses; electricity distribution and gas distribution, are regulated by the Australian Energy Regulator (AER) on a calendar year basis which differs to our financial year of April to March. Given the nature of the regulatory model and how tariffs are set, there are a number of items that will impact future revenues for our electricity distribution business as follows:

- There is a difference between the regulated revenue recognised under our accounting policy, and the revenue cap under the EDPR determination. This difference is trued-up (or down) as an adjustment to tariffs in future periods. For CY2016 we recognised $11.4 million less revenue than permitted under the revenue cap, $1.7 million of which has been recovered to 31 March 2017. In addition, due to a warm March 2017, $5.5 million has been over-recovered in relation to CY2017 tariffs to 31 March 2017, resulting in a cumulative under-recovery of $4.2 million in relation to the revenue cap to be received over CY2017 and CY2018.
- The AER's decision on our 2016 Advanced Metering Infrastructure (AMI) Transition Charges Application will result in a future negative revenue adjustment of $52.7 million ($2018), smoothed over calendar years 2018 to 2020.
- Based on CY2015 and CY2016 performance, we will recognise an additional $14.3 million of revenue ($14.8 million in CY2017, $0.5 million reduction in CY2018) under the Service Target Performance Incentive Scheme (STPIS).

GAS DISTRIBUTION BUSINESS

	FY2017	FY2016	Movement	%
Segment revenue ($M)	224.3	188.8	35.5	18.8
Segment result – EBITDA ($M)	164.4	136.7	27.7	20.3
Volume (PJ)	66.3	66.9	(0.6)	(0.9)
Connections	676,035	660,924	15,111	2.3
Capital expenditure ($M)	87.7	92.7	(5.0)	(5.4)

The EBITDA increase is principally the result of a $25.3 million increase in regulated revenues to $205.5 million. This was driven by tariff increases as well as phasing of tariffs in CY2016 and CY2017 which resulted in higher revenues being recognised in FY2017. In addition, $10.0 million of billing adjustments relating to prior years under-collection from retailers for new regional area customers was recognised in FY2017.

Volumes were consistent year-on-year, with strong customer growth offset by a reduction in per-household consumption due to milder weather in FY2017 and continued energy efficiency. Customer growth of 2.3 per cent is the strongest growth for a number of years due to the continued expansion of Melbourne's western suburbs such as Melton and Wyndham.

Segment expenses increased $7.8 million compared to prior year due to $3.6 million of redundancy, restructuring and program implementation costs associated with business efficiency initiatives and higher labour and Gas Access Arrangement Review (GAAR) preparation costs.

The reduction in capital expenditure has arisen from our mains renewal program (replacement of old cast iron and steel pipelines) primarily due to delays experienced in program delivery.

COMMERCIAL ENERGY SERVICES

	FY2017	FY2016	Movement	%
Segment revenue ($M)	221.4	192.8	28.6	14.8
Segment result – EBITDA ($M)	59.8	48.6	11.2	23.0
EBITDA margin (%)	27.0	25.2	1.8	7.1
Capital expenditure ($M)	132.7	21.1	111.6	528.9

The commercial energy services business consists of contracted infrastructure services, emerging energy markets, metering services and asset intelligence services. The contracted infrastructure services component owns and operates a portfolio of infrastructure assets that fall outside the regulated asset base (the largest of which is the Wonthaggi desalination plant connection).

REVIEW OF OPERATIONS continued

The investments are made through directly negotiated agreements, priced either based on an approved negotiating framework or competitively, pursuant to which AusNet Services typically receives revenue over the contract period in exchange for the network service and infrastructure provided.

The customers of this business are primarily operating in the utility and essential infrastructure sectors such as electricity, water, gas and rail companies.

During FY2017, commercial energy services completed the acquisition of Mortlake Terminal Station for $116 million, which was the primary driver for increased capital expenditure. This acquisition in June 2016, along with other unregulated connection agreements, drove higher revenues and EBITDA. New contracts and growth in existing contracts, resulted in a 1.8 per cent improvement in EBITDA margin despite incurring $1.6 million of redundancy and consulting costs relating to the refocus of the commercial energy services business.

Financial position

Total equity of the Group was $3,698.4 million as at 31 March 2017, an increase of $140.6 million compared to the previous financial year.

Our current liabilities exceed current assets by $130.8 million at 31 March 2017. We have prepared the financial report on a going concern basis, which contemplates the continuity of normal trading operations. 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 2017, the Group has available a total of $525.0 million of undrawn but committed non-current bank debt facilities and $328.8 million of cash.

Non-current assets increased by $247.2 million compared to prior year, largely due to the $839.6 million of capital expenditure invested into the asset base offset by the depreciation of our assets.

Non-current liabilities increased by $468.2 million due primarily to the refinancing of debt during the year.

Capital management

We manage our capital structure to maximise 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. 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 to support an 'A' range credit rating.

DEBT RAISING

Our common or central funding vehicle (CFV) operates through AusNet Services Holdings Pty Ltd, a subsidiary of AusNet Services. The Group has access to funds through the CFV.

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

> a HKD 1.2 billion 9.25–year bond issue raising approximately $207 million in December 2016;

> a NOK 1 billion 10.5–year bond issue raising approximately $160 million in January 2017;

> a USD 80 million 9–year bond issue raising approximately $107 million in January 2017; and

> an AUD 425 million 10.5–year bond issue in February 2017.

These issuances satisfy our refinancing requirements for the next twelve months.

DIVIDENDS

Dividends paid to shareholders during the financial year were as follows:

	Final 2016		Interim 2017	
	Cents per share	Total dividend $M	Cents per share	Total dividend $M
Fully franked dividend	4.265	150.9	2.20	78.45
Unfranked dividend	–	–	2.20	78.45
	4.265	**150.9**	**4.40**	**156.9**

Since the end of the financial year, the Directors have approved a final dividend for FY2017 of $158.5 million (4.40 cents per share) plus a special dividend of $36.0 million (1.00 cents per share) to be paid on 27 June 2017. Both the final dividend and the special dividend will be unfranked.

DIVIDEND REINVESTMENT PLAN (DRP)

In relation to the final 2016 dividend paid on 22 June 2016, $42.3 million was utilised in the allotment of new shares issued under the DRP, representing a take up rate of approximately 28 per cent. In relation to the interim 2017 dividend paid on 22 December 2016, $53.9 million was utilised in the allotment of new shares issued under the DRP, representing a take up rate of approximately 34 per cent. The DRP will be in operation for the final 2017 dividend with shares allocated at the volume weighted average price (at a zero per cent discount).

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 we operate. We maintain oversight of our material business risks (financial and non-financial) at an enterprise-wide level and report regularly 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.

Industry and regulatory risks

INDUSTRY DEVELOPMENTS

The energy industry is currently experiencing a period of unprecedented change and uncertainty across a number of different areas. These areas include the political and policy setting environment, technological advancements in how and where energy is generated and delivered, the regulatory environment and rules within which we operate, and customer expectations and choice regarding their future energy requirements.

There are a number of reviews and reform programs currently in progress that will shape the future of the industry and may potentially impact our business. Some of the more significant items include:

> Finkel review – which aims to develop a national reform blueprint to maintain energy security and reliability in the national electricity market.

> Limited Merits review by the Council of Australian Governments (COAG) to assess the effectiveness of the limited merits review regime and to explore all feasible options, including the removal of the limited merits review.

> The Federal Government is intervening in the wholesale gas market and has tasked the Australian Competition and Consumer Commission (ACCC) to monitor the regime. The implications, if any, for downstream network service providers are uncertain.

> The Victorian Government deferring the adoption of metering competition in Victoria, with a review to be undertaken prior to 1 January 2021.

> Ring-fencing guidelines released by the AER applicable to our business from 1 January 2018. We are currently working through the implementation of this guideline across our regulated and unregulated businesses.

In addition to these reviews, traditional energy models are changing with the closure of coal-fired power stations and the increase in renewable and distributed generation and storage. These changes are driven by changes in technology, environmental and regulatory policies, customer expectations, and cost. These changes are expected to continue in the future and may impact our networks' regulatory framework and ability to adapt and provide services to customers.

We continue to play a key role in the reform of the industry in terms of our active contribution in the current reviews and the trial of new technologies on our network. Our objective is to shape industry development and to lead and deliver network transformation.

TRANSITION TO METERING COMPETITION IN VICTORIA

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.

In March 2017, The Victorian Government deferred the adoption of metering competition in Victoria. Victorian electricity distributors will remain responsible for metering services for all small customers until at least 1 January 2021 and the Victorian smart metering specification will remain in place.

The Victorian Government proposed that a review be undertaken prior to 1 January 2021 to determine whether metering competition should be introduced in Victoria. The review will examine the benefits to Victorian electricity users of switching to the national regime, the impact of competition in metering services on particular customer groups, how potential barriers to distributor access to metering data can be addressed and the experience of other jurisdictions in implementing metering competition.

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. This is to accommodate changes under Power of Choice beyond metering contestability, including cost reflective pricing, new business-to-business processes and interaction with a new market gateway. There is a risk that we will not recover some or all of the expenditure associated with implementing these potentially complex changes.

MATERIAL RISKS AND UNCERTAINTIES INDUSTRY AND REGULATORY RISKS continued

RAPID EARTH FAULT CURRENT LIMITER (REFCL) PROGRAM

The REFCL program is a Victorian Government mandated program to implement technology that significantly reduces fault current within milliseconds of a single phase to ground fault (i.e. a fallen line), delivering increased level of protection from the possibility of fire starts. REFCL technology will be installed at 22 of our zone substations over the next six years at a total cost of approximately $275–350 million (including high voltage customers isolating transformers). The REFCL program presents several risks including, but not limited to, technology risk, network risk, vendor risk and funding risk.

No expenditure allowance was provided for in the 2016–2020 EDPR for the REFCL program. Instead it was identified as a 'contingent project' which allows the determination to be amended to include a cost allowance for the capital works when fully scoped and costed. On 31 March 2017 we submitted our contingent project application for the first tranche of the program to the AER, outlining total expenditure of $104.5 million ($2016, excluding capitalised overheads), for completion by 30 April 2019. The AER is expected to issue its determination on our application in August 2017. Funding for tranches 2 and 3 of the REFCL program will be subject to future contingent project applications.

While the REFCL devices are a proven technology, this program signifies the first time that they will be applied at scale for bushfire mitigation purposes. As a result, a significant amount of research and development is required within the program in order to ensure the safe and reliable operation of the devices.

With effect from 1 September 2017, the Electrical Safety Amendment (Bushfire Mitigation Civil Penalties Scheme) Bill 2017 will amend the Electricity Safety Act 1998. The Bill imposes a number of bushfire mitigation requirements (including the implementation of the REFCL program to the required performance standards and other Victorian Bushfire Royal Commission recommendations) and enables the enforcement of those requirements through a civil penalty reinforcement regime. The bill has passed parliament but is yet to receive Royal Assent. If it is passed into law as expected there is a risk that failing to comply with the timeframes in the regulations, in particular regarding the successful rollout of REFCL devices, could result in significant financial penalties.

PRICE DETERMINATIONS

The energy industry in Australia is highly regulated. The regulated component of our revenues (approximately 85.8 per cent of total revenues for the year ended 31 March 2017) 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 electricity transmission network, gas distribution network and electricity distribution network are 1 April 2017, 1 January 2018 and 1 January 2021, respectively.

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. The regulator applies 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.

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 be included 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. In addition, through our organisation-wide efficiency program we aim to improve our benchmark performance.

Network risks

Our energy transmission and 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 transmission or 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 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.

Risks associated with technological advancements and changes to traditional energy models are discussed in the industry and regulatory risks section.

Funding and market risks

We rely on access to financial markets as a significant source of liquidity for growth capital requirements not satisfied by operating cash flows. Our access to financial markets could be adversely impacted through 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 capital intensive businesses, and would likely increase our cost of capital. AusNet Services has operated a DRP since 2008, with discount levels that have varied between zero and 2.5 per cent. The use of a DRP and the level of discounting is dependent upon funding requirements at a point in time.

Furthermore, we have a large amount of debt, with a net debt to Regulated and Contracted Asset Base ratio at 31 March 2017 of 67.9 per cent (excluding equity credit for the $706 million of hybrid instruments). 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 by the Audit and Risk Management Committee periodically. 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. This enables us to maintain an 'A' range credit rating, ensures continued access to various markets and limits 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.

Information and communication technology risks

The drive to reduce carbon emissions, customers' needs for higher levels of reliability and the reduction in the cost of digital technology have resulted in a greater role for technology 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 technology 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 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 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.

Dear Shareholder,

On behalf of the Board, I am pleased to introduce our FY2017 Remuneration Report, for which we seek your support at our Annual General Meeting (AGM) on 20 July 2017.

While the Report provides detailed remuneration disclosures, I draw your attention to the following points in relation to the FY2017 performance and remuneration outcomes, changes to KMP remuneration during the year, and changes to the Short Term Incentive (STI) plan for FY2018.

FY2017 PERFORMANCE AND REMUNERATION OUTCOMES

Vesting rates for both STI and Long Term Incentive (LTI) plans were lower than last year. STI payments for all KMP reflected sound financial performance, partially offset by non-achievement of KPIs relating to health and safety, people and productivity. LTI vesting, which is based on a three-year performance period, reflected lower relative TSR and earnings per share performance compared to FY2016 outcomes.

The Board considers that all FY2017 payments made to executive KMP were appropriate in recognition of the company's performance and the contribution of the executive Key Management Personnel (KMP) in delivering our financial outcomes.

MANAGING DIRECTOR

In his address to the 2016 AGM, the Chairman indicated that the Board was reviewing the Managing Director's remuneration arrangements. This review concluded that his remuneration was below the market. As a result, the Board made a number of changes to the Managing Director's remuneration and terms and conditions of employment, including increasing the proportion awarded as equity. Those changes are fully disclosed in this report.

EXECUTIVE KMP

As part of the organisation restructure associated with AusNet Services' new operating model, on 1 July 2016 two KMP were promoted to new roles with expanded asset and operating accountabilities. This resulted in fixed remuneration adjustments for those KMP during the reporting year. While both employees participated in an Executive Retention Plan that was disclosed in our 2016 Remuneration Report, their participation in this Plan ceased upon appointment to their new roles.

Additionally, two former KMP left the company as a direct result of the restructure.

SHORT TERM INCENTIVE PLAN DESIGN CHANGES

Following a comprehensive review, the Board has decided to make some changes to the STI plan to support the strategy and drive stronger performance. The new STI increases the focus on financial performance, more directly links remuneration outcomes with performance and reduces the maximum STI opportunity.

The new framework will apply to all eligible STI participants within the company, including the Managing Director and reporting Executives and takes effect from 1 April 2017.

NON-EXECUTIVE DIRECTORS

The Board has made no changes to Board and Committee fees over the past year.

The Board will continue to monitor developments in remuneration practice, listen to feedback and review our executive remuneration arrangements to ensure they are effective in driving performance and long-term shareholder value.

I commend the FY2017 Remuneration Report to you.

Sally Farrier
Chair, Remuneration Committee

INTRODUCTION AND CONTENTS

Our objective in preparing this report is to provide you with information that demonstrates the links between remuneration, company strategy, AusNet Services' performance, and shareholder outcomes. The report also explains the framework and governance that we have in place to ensure effective remuneration practices.

To support the objective, this report includes an overview of our performance and remuneration outcomes, as well as a summary of our governance practices. The report has been prepared and audited against the disclosure requirements of the *Corporations Act 2001* (Cth).

Information within this report has been laid out in the following sections:

1. KEY MANAGEMENT PERSONNEL

AusNet Services' KMP are assessed each year and comprise the Directors of the company and Senior Executives. KMP have authority and responsibility for planning, directing and controlling the activities of AusNet Services. Those that are assessed to be KMP for FY2017 are:

Name	Position
Non-executive Directors	
Peter **Mason**	Non-executive Chairman (appointed Chairman 11 May 2016)
Ralph **Craven**	Non-executive Director
Sally **Farrier**	Non-executive Director
Ho Tian Yee	Non-executive Director
Tina **McMeckan**	Non-executive Director
Robert **Milliner**	Non-executive Director
Nora **Scheinkestel**	Non-executive Director (appointed 18 November 2016)
Sun Jianxing	Non-executive Director
Tan Chee Meng	Non-executive Director (appointed 11 May 2016)
Executive KMP	
Nino **Ficca**	Managing Director
Chad **Hymas**[1]	Executive General Manager, Commercial Energy Services (formerly General Manager, Strategy & Business Development)
Adam **Newman**	Executive General Manager and Chief Financial Officer
Alistair **Parker**[1]	Executive General Manager, Regulated Energy Services (formerly General Manager, Asset Management)
Mario **Tieppo**	Executive General Manager, Technology (formerly Chief Information Officer)

1. Appointed to new role on 1 July 2016 following organisational restructure.

FORMER KEY MANAGEMENT PERSONNEL

The following people ceased to be KMP during FY2017:

> Mr Ng Kee Choe, previously Board Chairman, retired from the AusNet Services Board on 11 May 2016.
> Following an organisational restructure, Mr John Azaris and Mr John Kelso ceased to be KMP from 1 July 2016.

2. REMUNERATION OVERVIEW AND CHANGES

Our executive remuneration structure and approach is designed to link rewards with the performance of employees, the Group and benefits that flow to our shareholders. The table below shows performance outcomes for a range of key measures that have driven remuneration and shareholder outcomes for the current and past reporting periods. These outcomes demonstrate a link between the level of performance achieved and pay outcomes, with lower rewards paid in years of lower corporate performance and higher rewards during years of stronger performance.

Financial performance	FY13	FY14[1,2]	FY15[3]	FY16	FY17[5]
NPAT (SM)[1,3,4]	274	178	23	489	255
EBITDA (SM)	976	1,017	1,047	1,143	1,073
Return on Equity (%)	8.6%	5.3%	1.0%	14.0%	7.0%
Total Shareholder Return (TSR) Percentile Ranking	87.2	88.1	62.3	71.4	68.6
Earnings Per Share (EPS) 3 year compound annual growth rate[2]	1.80%	-11.1%	-58.1%	17.8%	3.4%
Share price at 31 March ($)	1.195	1.310	1.460	1.490	1.685
Dividends (cents per share)[5]	8.20	8.36	8.36	8.53	9.80
STI %[6]	144.6%	80.0%	56.2%	127.1%	107.6%
LTI vested as % of target – MD	50.0%	48.1%	37.5%	104.9%	70.6%
LTI vested as % of target – other KMP	50.0%	50.0%	33.5%	120.3%	76.1%

1. FY2014 net profit after tax includes a net charge of $86.7 million for the amount 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. FY2014 EPS measure was adjusted to exclude the $50 million payable for the termination of the MSA at the Board's discretion.
3. FY2015 net profit after tax 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).
4. FY2016 net profit after tax 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).
5. FY2017 dividends consist of 8.80 cents per share ordinary dividend plus 1.0 cents per share special dividend.
6. Corporate STI Scorecard outcome.

KEY REMUNERATION OUTCOMES AND CHANGES DURING FY2017

Short Term Incentive (STI)	The FY2017 STI Corporate scorecard achieved 107.6 per cent of target performance. Individual personal STI scorecard outcomes varied across executive KMP.
Long Term Incentive (LTI)	The 2014 LTI tranche was assessed after the three-year performance period. 70.6 per cent of the Managing Director's LTI and 76.1 per cent of LTI for other executive KMP vested.
Managing Director Pay Structure	As foreshadowed at the 2016 Annual General Meeting, the Board has completed a review of the Managing Director's remuneration arrangements, which confirmed that his fixed remuneration and other components were below the market and had been for some time and that a lower proportion of his remuneration was at risk. The review resulted in: > a 19.6 per cent increase in the MD's Fixed Annual Remuneration (FAR) to $1.3 million; > an increase in his short-term incentive target opportunity to 75 per cent of FAR; > one third of all STI awards deferred into equity for two years; and > an increase in LTI opportunity to 120 per cent of FAR effective from 2017 LTI grant. These changes led to an FY2017 increase of 10.7 per cent in actual remuneration paid.
Other Executive KMP	> The Company implemented a new operating model and organisation structure to align to its corporate strategy. Two executive KMP, Mr Alistair Parker and Mr Chad Hymas were appointed to new roles with expanded asset portfolios and operating responsibilities and received increases to fixed pay of 19.4 per cent and 33.1 per cent respectively. > Other executive KMP increases ranged from 1.75 per cent to 2.25 per cent.
Non-executive Directors (NEDs)	No increases to Non-executive Director fees during the year.
STI Plan	The Board undertook a review of the executive KMP STI Plan, which highlighted opportunities to increase transparency and simplicity and better align with the company's business strategy and structure. From 1 April 2017, a new STI plan will be introduced, incorporating the following changes: > The introduction of a financial performance gateway to ensure that STI is only paid to KMP when shareholders also benefit. > Moving from dual corporate and personal KPI scorecards to a single additive scorecard. > Significantly greater weighting on financial measures – FY2018 financial measures (EBITDA and ROE) to account for 60 per cent of STI opportunity for executive KMP. > Maximum STI opportunity reduced from 196 per cent to 150 per cent of target.

2. REMUNERATION OVERVIEW AND CHANGES continued

REMUNERATION PAID TO EXECUTIVE KMP – UNAUDITED

The following table sets out the actual remuneration paid to current Executive KMP over the past two reporting years. This includes fixed and STI cash paid, the value of deferred STI equity in respect to the Managing Director and the value of the 2014 LTI awards vested to KMP in FY2017. Note that the following table is non-IFRS information and is unaudited.

Current KMP	FY	Fixed annual remuneration [3]	Short term incentive paid	STI deferred (2 years)	Retention/ ex-gratia	LTI vested	Total
Nino **Ficca** [1]	2017	1,300,000	629,460	314,730	–	917,930	3,162,120
	2016	1,086,800	628,502	–	–	1,140,352	2,855,654
Chad **Hymas** [2]	2017	422,040	154,399	–	–	171,203	747,642
	2016	330,720	176,545	–	88,272	198,961	794,498
Adam **Newman** [4]	2017	692,835	253,467	–	126,733	263,589	1,336,624
	2016	679,250	352,237	–	176,119	408,637	1,616,243
Alistair **Parker** [2]	2017	479,745	175,510	–	–	190,225	845,480
	2016	409,760	177,074	–	88,537	246,512	921,883
Mario **Tieppo** [4]	2017	425,360	164,767	–	212,680	161,828	964,635
	2016	416,000	179,770	–	–	192,705	788,475

1. Reflects adjustment to fixed pay and STI opportunity, effective 1 April 2016.
2. Increase in FAR due to promotion as a result of the 1 July 2016 organisational restructure.
3. Other KMP fixed increases ranged from 1.75 per cent to 2.25 per cent, effective 1 April 2016.
4. Mr Newman received a higher STI Award relating to his participation in the company's 2016–2017 Executive Retention Plan, which ceased on 31 March 2017. Mr Tieppo received an additional incentive payment related to the vesting of his metering remediation program incentive plan. Both these items were fully disclosed in the company's 2016 Remuneration Report.

Statutory accounting disclosures of remuneration which are shown in section 7 of this report differ from the actual pay received due to accounting values for leave provisions and accounting treatment of unvested LTI awards.

3. EXECUTIVE KMP REMUNERATION FRAMEWORK AND REWARD MIX

The following table summarises AusNet Services' Executive KMP remuneration framework applying to FY2017.

Remuneration objectives and principles

The objective of our approach to executive KMP remuneration is 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 as follows:

- Aligned to strategy and business need
- Market competitive
- Performance-driven
- Simple and transparent
- Position in employee value proposition
- Reflects fairness across the business
- Effective Governance

Remuneration decisions include matters related to the design of the executive remuneration framework, how the framework is applied, how performance measures and targets are set and how outcomes are determined.

REMUNERATION ELEMENT AND LINK TO OUR BUSINESS STRATEGY AND PERFORMANCE

FY2017	Fixed annual remuneration	At risk variable remuneration	
		Short-term incentive	Long-term incentive
Approach	Set at a market competitive level to attract and retain key talent and with regard to the complexity of the role, skills and competencies required	> For the Managing Director, STI outcome delivered as two thirds cash and one-third deferred equity rights with two-year deferral period. > Other executive KMP receive cash STI payment, based on performance over the year.	> KMP LTI delivered as performance rights that vest over a three year period if relevant performance hurdles are achieved.
Purpose and rationale	Attract and retain executives with the capability and experience to deliver outcomes	> Motivates and rewards executives for short-term outcomes and milestones which align to shareholder interests and business performance. > Because the type and weighting of STI measures is based on the role and responsibilities of the executive, strongly aligned to business strategy and performance. > STI is awarded only if there has been a satisfactory level of company performance and individual KPIs have been met.	> Designed to motivate and reward sustainable superior performance, which is aligned with the interests of shareholders. > The three-year vesting period is designed to align executive performance and decision-making with longer term outcomes and assists in the retention of key executives.
Performance measures and rationale	FAR reviewed against market rates for comparable roles. No guaranteed FAR increases in executive KMP contracts of employment.	> KPIs based on a balanced scorecard of financial and non-financial measures. > Safety of our people and delivery partners and the operation of our assets are paramount to performance. Measured via HSEQ Index and F-Factor performance. > STI financial KPIs of EBITDA, Return on Equity and Cash flow from operations are key financial performance measures as they measure our ability to grow revenues, exhibit cost control and effectively manage working capital. > Limiting turnover and retaining key talent is critical to ongoing success. > Key business performance measures encompassing service standards, productivity, efficiencies and program delivery activities align to our strategic plan.	> LTIP KPIs are Relative Total Shareholder Return (50 per cent), Earnings Per Share (EPS) growth (25 per cent) and Return on Invested Capital (25 per cent). > Total Shareholder Return (TSR) measures returns generated from the investments made against performance of comparator group. > EPS provides tangible measure of shareholder value creation. > Return on invested capital (ROIC)* measures returns generated from investments in operations. > Interest cover ratio (ICR)* provides an indication of ability to service debt obligations.

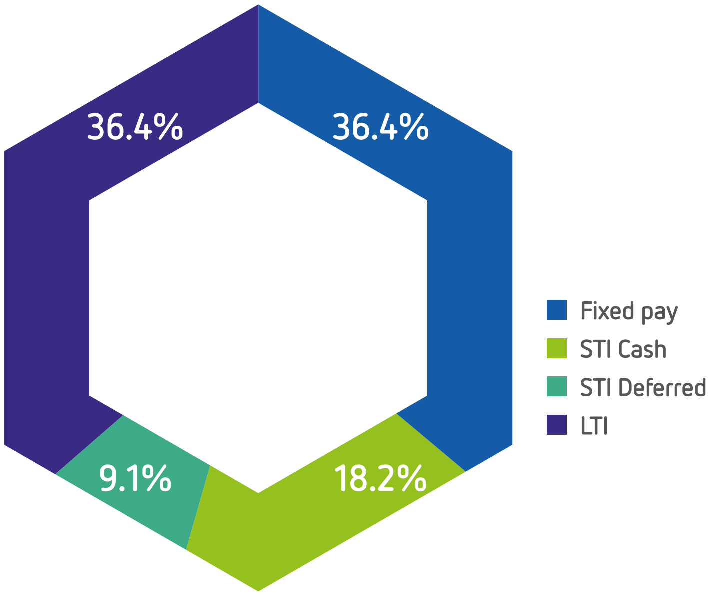
* ROIC & ICR apply only to the Managing Director in relation to the 2014 LTI tranche

3. EXECUTIVE KMP REMUNERATION FRAMEWORK AND REWARD MIX continued

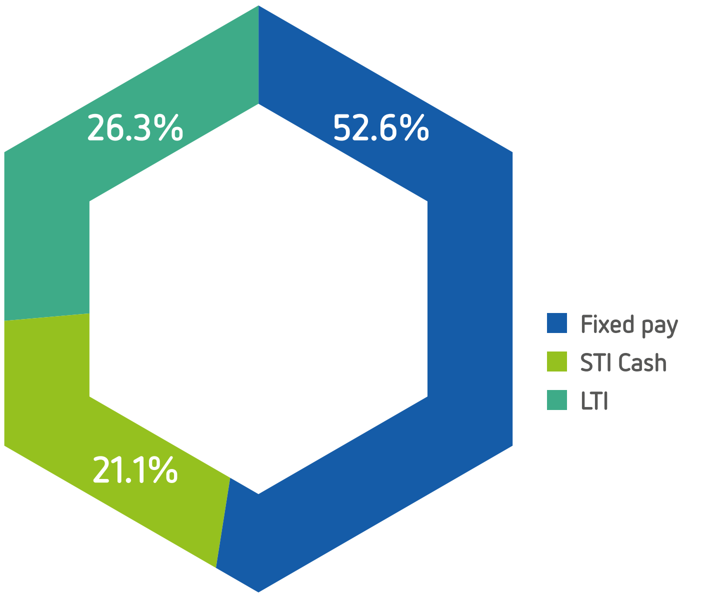
TOTAL REWARD MIX

Our FY2017 Executive Remuneration approach comprised Fixed Remuneration, Short Term and Long Term Incentive components as described above. The executive KMP target reward mix is shown below.

Managing Director



Other Executive KMP



Remuneration and Other Terms of employment

Remuneration and other terms of employment for the Managing Director are set out in the table below.

Managing Director	
Term of Agreement	Permanent, subject to six months' notice of termination by either party.
Fixed remuneration	Fixed remuneration includes base salary and superannuation. As at 31 March 2017, FAR was $1,300,000. Fixed remuneration is reviewed annually by the Remuneration Committee and the Board, with no guarantee of increase.
Short-term incentive	Annual short-term incentive of 75 per cent of FAR for on-target performance. Previously (FY2016) this was 50 per cent. STI is delivered as two-thirds in cash payment and one-third in deferred rights, with a two-year deferral period. Unless otherwise determined by the Board, STI awards are forfeited if terminated for cause or resignation prior to vesting date.
Long-term incentive	Long-term incentive of 100 per cent (120 per cent from FY2018) of FAR for on-target performance, based on the performance measures of TSR, EPS and ROIC. Treatment of LTI awards are dealt with under the LTI plan rules and the specific terms of grant. In general, unless otherwise determined by the Board, LTI awards lapse upon resignation or termination for cause and for termination without cause will remain on foot on a pro-rata basis, to be tested against the relevant performance conditions at the vesting date. Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years. Clawback provisions apply in Plan Rules.
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 are substantially the same as those that apply to the Managing Director. However, variable reward opportunity differs for executive KMP, being short-term incentive opportunity of 40 per cent of FAR for on-target performance and long-term incentive of 50 per cent of FAR for on-target performance.

4. 2017 EXECUTIVE KMP INCENTIVE PLANS AND PAY OUTCOMES

Short-Term Incentive Plan

The following information describes the STI Plan that was in place for executive KMP during FY2017.

PLAN DESIGN

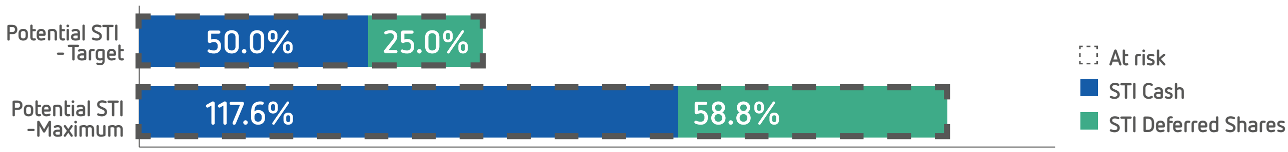
Individual STI outcomes are determined by multiplying the outcome of two separate scorecards (one corporate and one individual) by the participant's STI opportunity level (being a set percentage of FAR).

Participant		Corporate scorecards		Individual scorecards		Individual STI outcome
Opportunity level (% of FAR)	X	100% at target, Corporate capped at 196% of target	X	100% at target, capped at 120% of target	=	(% 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

EXECUTIVE KMP PARTICIPATION OPPORTUNITY

Participation in the FY2017 STI plan is expressed as a percentage of the participants' FAR and is set out in the following figure:

MANAGING DIRECTOR STI PARTICIPATION (% FAR)



OTHER EXECUTIVE KMP STI PARTICIPATION (% FAR)

Two thirds of the Managing Director's STI award is paid in cash with one third deferred in shares held over a two-year period. STI is paid in cash for all other executives

STI – KPI PERFORMANCE MEASURES AND TARGETS

For FY2017, the key corporate performance measures were set to reflect the strategic and financial business drivers, specifically financial performance (EBITDA, ROE and Cash flow from operations), safety performance and outcomes, retention of key talent, asset performance and efficiency. The FY2017 targets and performance ranges were set to deliver acceptable financial returns to shareholders and drive sustainable efficiency outcomes over the immediate and longer term.

FY2017 CORPORATE STI SCORECARD PERFORMANCE OUTCOMES

For FY2017, maximum outcomes were achieved in relation to two corporate financial measures, ROE and Cash flow from operations with the remaining EBITDA measure achieving an above-target outcome. For the remaining KPI's contained in the Corporate Scorecard, two achieved maximum performance whilst a further two KPI's achieved target performance. Three KPI's did not achieve threshold performance. Overall the FY2017 corporate STI scorecard achieved a scorecard outcome of 107.6 per cent of overall target performance.

The following table shows the outcome across the performance range for each corporate performance measure:

FY2017 corporate STI scorecard			FY2017 performance outcomes		
Our strategic drivers	Scorecard weighting	Measure	Threshold	Target (100%)	Maximum
Safety	15%	HSEQ index score			
		F-factor			
Financial	40%	EBITDA			
		Return on equity			
		Cash flow from operations			
People	10%	Turnover of talent			
Business and asset	35%	Service standard			
		Productivity measure			
		Metering program – delivery on time and on budget			
		Metering program – compliance and functionality			

Participants in the FY2017 STI plan included 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.

Overall STI outcomes for FY2017 are as follows:

	Opportunity		Outcome		
	Target STI (% FAR)	Max STI (% FAR)	Actual STI (% FAR)	Actual STI (% target)	Actual STI (% max)
Managing Director	75.0	176.4	72.6	96.8	41.2
Other Executive KMP (average)[1]	40.0	94.1	37.1	92.8	39.5

1. Excludes any retention component

EXECUTIVE RETENTION PLANS

As reported last year, in FY2016, the Board established a targeted two-year Executive Retention Plan for several KMP, based on a 20 per cent uplift to target STI opportunity. During FY2017, Alistair Parker and Chad Hymas were appointed to new expanded roles and as part of those appointments, forfeited their participation in the FY2017 period of the retention plan. Adam Newman continued to participate in this second and final year of the Plan, resulting in his higher target FY2017 STI opportunity of 60 per cent and maximum opportunity of 141.1 per cent.

In October 2015, the Board approved a one-off 50 per cent ex-gratia payment opportunity for Mario Tieppo associated with the metering program milestones, scheduled for assessment on 31 March 2017. Key milestones associated with the ex-gratia opportunity have been achieved in full.

The impact of these Retention Plan Payments, which were fully disclosed in the FY2016 Remuneration Report, are reflected in both the realised pay table set out in section 2 of this report and the statutory remuneration table contained in section 7 of this report. All retention plans have now been concluded.

4. 2017 EXECUTIVE KMP INCENTIVE PLANS AND PAY OUTCOMES continued

Long-Term Incentive Plan

The following describes our LTI Plan design for the 2016 LTI grant, with the three-year performance period concluding on 31 March 2019:

<table>
<tr><th>Design aspect</th><th colspan="3">Commentary</th></tr>
<tr><td>Eligibility</td><td colspan="3">Executive KMP. The Board may in its discretion invite additional employees who are in a position to influence long-term shareholder value to participate in the LTI plan.</td></tr>
<tr><td>Opportunity</td><td colspan="3">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 share price.
Performance is assessed over a three-year period and the LTI plan does not allow for retesting of performance measures in subsequent years. 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.</td></tr>
<tr><td rowspan="2">Performance measures</td><td>Total Shareholder Return (TSR)</td><td>Earnings Per Share (EPS)</td><td>Return on Invested Capital (ROIC)</td></tr>
<tr><td>The comparator group used for the TSR performance measure is the S&P/ASX 200 index. In assessing whether performance hurdles have been met, independent data is reviewed by the Board indicating TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR growth achieved is given a percentile ranking, having regard to our performance compared with the performance of the comparator group.</td><td>The EPS growth measure is based on achieving a nominal compound annual growth (CAGR) of 5 per cent per annum over the three-year period.</td><td>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).</td></tr>
<tr><td rowspan="4">Weighting and targets</td><td>Weighting 50%</td><td>Weighting 25%</td><td>Weighting 25%</td></tr>
<tr><td>Threshold Performance
50th percentile – 35% vesting</td><td>Threshold Performance
2.5% CAGR – 0% vesting</td><td>Threshold Performance
4.60% – 50% vesting</td></tr>
<tr><td>Target / Max performance
75th percentile – 100% vesting</td><td>Target / Max performance
5.0% CAGR – 100% vesting</td><td>Target / Max performance
4.80% – 100% vesting</td></tr>
<tr><td colspan="3">The vesting of each of the above KPIs will occur on a linear basis between the threshold and maximum ranges.</td></tr>
<tr><td>Delivery mechanism</td><td colspan="3">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.</td></tr>
<tr><td>Clawback arrangements</td><td colspan="3">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.</td></tr>
</table>

2014 LTI performance outcomes

The Board assessed the 2014 LTI grant, which is the last of our previous cash based LTI grants.

Performance measures under the 2014 plan were relative TSR and EPS growth. In addition, the Managing Director's LTI award was also based on performance against ROIC and ICR measures.

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

The following table sets out the performance of the KPIs under the 2014 grant of the LTI plan:

	2014 Grant – 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 assessed performance outcomes, and the weightings for the LTI measures set out above, resulted in the following vesting of 2014 LTI grant awards:

	2014 Grant – Awarded vesting	
Opportunity	**Managing Director**	**Other executive KMP**
Per cent of target	70.6%	76.1%
Per cent of maximum	56.5%	60.9%

LTI DELIVERY MECHANISM

While performance rights were granted under the 2015 and 2016 LTI grant, the 2014 LTI awards were granted under the previous cash-based LTI plan. Once the performance criteria have been satisfied, participants receive a cash award. Participants are then required (under the 2014 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.

5. NON-EXECUTIVE DIRECTORS

The following describes our approach to Non-executive Director remuneration:

NED fee element	Commentary
Fees	The remuneration of Non-executive Directors consists of Directors' fees and committee fees. The Board's policy is that fee levels are set having regard to independent performance advice and fees paid by comparable companies, and that fees paid are not linked to the performance of AusNet Services to maintain objectivity and independence. In accordance with the constitution of AusNet Services Ltd, Non-executive Directors may also be paid additional fees for special duties or exertions.
Total fee pool	Non-executive Directors are entitled to such remuneration for their services as the Board decides, but the total amount provided to all Non-executive Directors (including any additional fees for special duties or exertions) must not exceed in aggregate in any financial year the amount approved by shareholders in a general meeting. The shareholders approved a total remuneration pool for Non-executive Directors of $2,250,000 per year at the Annual General Meeting held on 21 July 2016.
Equity based compensation	Non-executive Directors are not provided with any form of equity-based compensation.
Business related expenses	Non-executive Directors are entitled to be reimbursed for all business-related expenses, including travel on company business, as may be incurred in the discharge of their duties.
Retirement benefits	Non-executive Directors are not provided with any form of retirement benefit. Fees paid are inclusive of superannuation contributions made on behalf of the Non-executive Directors in accordance with our statutory superannuation obligations.
Review of fee levels and approach to Non-executive Director fees	The Remuneration Committee regularly reviews the fees payable to Non-executive Directors, considering market practices, governance developments and the time commitment and responsibilities involved in carrying out their duties. In general it has determined that fees should be reviewed every three years. As reported in FY2016, Non-executive fees were reviewed in 2015; fees have not increased subsequently.

The annual fees payable to Non-executive Directors of AusNet Services and approved by the Board (inclusive of statutory superannuation) for the financial year ended 31 March 2017 are set out in the table below. It is not possible to allocate fees to individual entities within the AusNet Services Group.

Role[1]	Chair fee	Member fee
Board	$390,000	$165,000
Audit and Risk Management Committee	$40,000	$20,000
Remuneration Committee	$35,000	$17,500
Issuing Committee	Committee removed	Committee removed
Nomination Committee	included in base fee	included in base fee

1. In addition to the fees noted above, Non-executive Directors may also be paid fees for special duties or exertions.

6. REMUNERATION GOVERNANCE

AusNet Services' approach to remuneration governance is sound and comprehensive. Our approach is summarised as follows:

CLEAR ROLES ALLOW FOR EFFICIENT DECISION-MAKING

The Board and Committee Charters have clear roles for remuneration issues to be considered by management, the Remuneration Committee and the Board.

> The Board has developed and applies Remuneration Principles to guide its decision making on remuneration matters. These principles were last reviewed in January 2016.

> Management provides information and insights on contemporary remuneration practices and obtains remuneration information from external advisors to assist the Remuneration Committee.

> The Remuneration Committee is delegated to review and make recommendations to the Board for consideration and approval on matters of remuneration frameworks and structure, non-executive remuneration and executive remuneration, including fixed and variable pay elements.

> The Board assesses the performance of the Managing Director and approves all related reward outcomes.

CONTINUOUS DEVELOPMENT AND MONITORING OF MARKET PRACTICES

> Directors and Management actively seek opportunities to engage with peers.

> Directors regularly receive and review current remuneration market practices and emerging trends and assess their relevance to AusNet Services.

THE USE OF EXTERNAL ADVISORS TO SUPPORT INFORMED AND INDEPENDENT DECISION-MAKING

> The Remuneration Committee formally appointed EY as its Remuneration Advisor in October 2015 and engages other external advisors as required.

> No remuneration recommendations were provided to the Remuneration Committee or Board by EY during the reporting period.

> Advice provided to the Remuneration Committee by EY during the reporting period focussed on overall market practices in relation to executive STI design, approach and frameworks. This advice included analysis and modelling of potential options and scenarios, which assisted the Board in reviewing and determining the executive STI framework for FY2018.

> EY provided advice in relation to market practice and benchmarking for the Managing Director, which assisted the Board in reviewing the Managing Director's fixed remuneration and variable pay reward mix.

STAKEHOLDER ENGAGEMENT

> The Board regularly reviews its strategy for open and transparent engagement with shareholders and other stakeholders to inform remuneration governance and approaches.

7. STATUTORY REMUNERATION DISCLOSURES

Short-Term Incentive

The percentage of the available STI that was paid, or that vested, in the financial years ended 31 March 2016 and 31 March 2017, and the percentage of target that was forfeited because the executive KMP did not meet the service or performance criteria, are set out below.

	FY2017 STI [1,2]						FY2016 STI		
					Percentage of target			Percentage of target	
	STI payable ($)[4 5]	STI Deferred ($)[6]	Retention/ ex-gratia payable ($)	Total STI payable ($)	Payable	Forfeited	Paid ($)	Paid	Forfeited
Nino **Ficca**	629,460	314,730	n/a	944,190	96.8	3.2	628,502	115.7	0.0
John **Azaris**[3]	40,282	–	n/a	40,282	36.0	64.0	246,854	114.4	0.0
Chad **Hymas**	154,399	–	n/a	154,399	91.5	8.5	264,817	133.5	0.0
John **Kelso**[3]	40,592	–	n/a	40,592	45.0	55.0	92,579	58.4	41.6
Adam **Newman**[7]	253,467	–	126,733	380,200	91.5	8.5	528,356	129.6	0.0
Alistair **Parker**	175,510	–	n/a	175,510	91.5	8.5	265,611	108.0	0.0
Mario **Tieppo**[7]	164,767	–	212,680	377,447	98.6	1.4	179,770	108.0	0.0

1. Incentive payments for the performance year ended 31 March 2017 have been approved and will be payable in June 2017.
2. These payments include the STI uplift for Mr Newman for the executive retention plan in relation to FY2017 and for Mr Tieppo, whose executive retention plan payable relates to both FY2017 and FY2016.
3. Mr Azaris and Mr Kelso were paid a pro-rata STI upon termination. Mr Azaris forfeited his retention plan amount in full. Pro-rata amount reflects payable in relation to period in which the employee was KMP.
4. The Managing Director's target STI opportunity was increased by the Board from 50 per cent to 75 per cent of target, effective 1 April 2016.
5. Mr Ficca's FY2016 STI was 57.8 per cent of FAR (115.7 per cent of target based on the previous level of opportunity); with other executive KMP average STI payments 43.5 per cent of FAR (108.8 per cent of target) in FY2016.
6. One third of the Managing Director's FY2017 award will be deferred into share rights. STI is paid in cash for all other executives.
7. Mr Newman received an additional award relating to his participation in the FY2017 Executive Retention Plan and Mr Tieppo received an award related to the achievement of key milestones attached to metering remediation program. Details are disclosed in section 4 of this report.

Long-Term Incentive

The following table shows the value of 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 2015 and 2016 are still in progress and, as such, no percentage of these grants has been paid or forfeited as at the date of this report other than for former KMP.

Current KMP	Percentage of maximum grant payable (%) [1]	Percentage of maximum grant forfeited (%)	Maximum total value of grant ($) [2]	Performance rights granted
2014 Grant – Cash-based LTI plans	Vesting date 31-Mar-17			
Nino **Ficca**	56.5	43.5	1,662,500	
Chad **Hymas**	60.9	39.1	281,250	
Adam **Newman**	60.9	39.1	433,022	
Alistair **Parker**	60.9	39.1	312,500	
Mario **Tieppo**	60.9	39.1	262,850	
Total granted 1 April 2014			**2,952,122**	
2015 Grant – Performance rights	Vesting date 31-Mar-18			
Nino **Ficca**	–	–	739,722	739,722
Chad **Hymas**	–	–	112,551	112,551
Adam **Newman**	–	–	231,163	231,163
Alistair **Parker**	–	–	139,450	139,450
Mario **Tieppo**	–	–	141,573	141,573
Total granted 1 April 2015			**1,364,459**	**1,364,459**
2016 Grant – Performance rights	Vesting date 31-Mar-19			
Nino **Ficca**	–	–	706,437	692,585
Chad **Hymas**	–	–	107,487	105,379
Adam **Newman**	–	–	220,222	215,904
Alistair **Parker**	–	–	133,175	130,564
Mario **Tieppo**	–	–	135,203	132,552
Total granted 1 April 2016			**1,302,524**	**1,276,984**

1. These grants have been approved and will be payable in June 2017. In determining LTIs for the 1 April 2014 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 2014, the amounts payable equated to 60.9 per cent of the maximum LTI, except for Mr Ficca whereby the amount payable equated to 56.5 per cent of the maximum LTI. For the performance rights granted on 1 April 2015 and 1 April 2016, the amounts represent the value of the performance rights on grant date. Refer to Note F.3 in the financial statements for further details.

7. STATUTORY REMUNERATION DISCLOSURES continued

LONG-TERM INCENTIVE (CONTINUED)

Former KMP	Percentage of maximum grant payable (%)	Percentage of maximum grant forfeited (%)	Maximum total value of grant ($)
2014 Grant – Cash-based LTI plans	Vesting date – 30 Sep 16		
John **Azaris** [3]	50.0	50.0	274,471
John **Kelso** [3]	50.0	50.0	252,181
Total granted 1 April 2014			**526,652**
2015 Grant – Performance rights	Vesting date – 30 Sep 16		
John **Azaris** [3]	37.5	62.5	146,882
John **Kelso** [3]	37.5	62.5	134,954
Total granted 1 April 2015			**281,836**
2016 Grant – Performance rights	Vesting date – 30 Sep 16		
John **Azaris** [3]	12.5	87.5	139,587
John **Kelso** [3]	12.5	87.5	128,252
Total granted 1 April 2016			**267,839**

3. Mr Azaris and Mr Kelso ceased as KMP from 1 July 2016 and ceased as employees of the Company from 30 September 2016. As part of the termination the Board modified the long-term incentive plan to vest 75 per cent of the pro-rata participation in the 1 April 2014, 2015 and 2016 tranches of the LTI plan on 30 September 2016. The maximum total value of grant disclosed above is based on the original entitlement.

Executive KMP Statutory Remuneration

The following table sets out the each element of total reported remuneration for executive KMP, based on statutory remuneration disclosure requirements.

			Short-term		Post-employment	Equity based payments[3]	Termination benefits	Other long-term benefits [4,5]	Total
	FY	Cash salary and fees[5]	STI[1]	Other short-term benefits [2,5]	Superannuation				
Nino **Ficca**	2017	1,112,677	944,190	120,292	125,593	1,016,843	–	216,763	3,536,358
	2016	905,478	628,502	85,778	104,792	880,542	–	58,646	2,663,738
John **Azaris** [6]	2017	96,661	40,282	17,881	11,604	149,008	329,621	6,867	651,924
	2016	324,109	246,854	39,085	45,350	188,860	–	17,073	861,331
Chad **Hymas**	2017	382,492	154,399	69,169	25,000	193,164	–	54,569	878,793
	2016	277,528	264,817	33,161	25,096	144,717	–	12,248	757,567
John **Kelso** [7]	2017	94,561	40,592	15,340	9,791	136,908	234,596	5,241	537,029
	2016	291,424	92,579	35,982	34,536	172,048	–	12,487	639,056
Adam **Newman**	2017	575,720	380,200	62,226	25,000	308,602	–	18,179	1,369,927
	2016	604,228	528,356	58,142	25,096	298,471	–	18,860	1,533,153
Alistair **Parker**	2017	390,732	175,510	47,078	32,510	209,785	–	25,614	881,229
	2016	366,576	265,611	44,922	24,176	179,302	–	12,739	893,326
Mario **Tieppo**	2017	362,011	164,767	43,332	23,467	181,687	–	119,708	894,972
	2016	374,521	179,770	38,797	25,096	143,699	–	115,146	877,029
Total Executive KMP	**2017**	**3,014,854**	**1,899,940**	**375,318**	**252,965**	**2,195,997**	**564,217**	**446,941**	**8,750,232**
	2016	**3,143,864**	**2,206,489**	**335,867**	**284,142**	**2,007,639**	–	**247,199**	**8,225,200**

1. FY2017 *STI* includes amounts in respect of performance for the year ended 31 March 2017. These amounts have been approved and will be payable in June 2017. A pro-rata STI payment was made to Mr Azaris and Mr Kelso upon termination at 90 per cent of target at the Board's discretion.
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. Pro-rata LTI payment is based on an estimated vesting of 75 per cent provided at the Board's discretion.
4. *Other long-term benefits* include the accrual of long service leave entitlements. For Mr Tieppo it also includes his executive retention plan.
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. Termination benefits for Mr Azaris comprise of $110,886 in lieu of notice and $218,735 termination payment, both as per his service agreement. The total termination benefit of $329,621 was paid in compliance with Part 2D.2, Division 2 of the *Corporations Act*.
7. Termination benefits for Mr Kelso comprise of $33,624 in lieu of notice and $200,972 termination payment, both as per his service agreement. The total termination benefit of $234,596 was paid in compliance with Part 2D.2, Division 2 of the *Corporations Act*.

7. STATUTORY REMUNERATION DISCLOSURES continued

Remuneration Paid to Non-executive Directors

		Short-term		Post-employment	Total
Non-executive Directors	FY	Cash salary and fees	Other short-term benefits [1]	Super -annuation [2]	
Ralph **Craven** [3]	2017	169,219	–	15,781	185,000
	2016	188,869	–	17,942	206,811
Sally **Farrier** [3]	2017	182,586	–	16,967	199,553
	2016	187,633	–	17,825	205,458
Ho Tian Yee	2017	184,787	–	17,555	202,342
	2016	176,869	–	16,803	193,672
Tony **Iannello** [3,4]	2016	72,163	–	6,856	79,019
Peter **Mason** [5]	2017	346,797	–	18,990	365,787
	2016	5,780	–	549	6,329
Tina **McMeckan** [3]	2017	216,598	–	19,027	235,625
	2016	215,094	–	19,038	234,132
Robert **Milliner** [3,6]	2017	173,849	–	15,574	189,423
	2016	134,739	–	12,800	147,539
Ng Kee Choe [3]	2017	40,008	–	3,801	43,809
	2016	347,654	–	23,482	371,136
Ian **Renard** [3,4]	2016	57,863	–	5,497	63,360
Nora **Scheinkestel** [7]	2017	62,142	–	5,903	68,045
Sun Jianxing	2017	162,760	–	15,462	178,222
	2016	155,900	–	14,810	170,710
Tan Chee Meng [8]	2017	141,219	–	13,416	154,635
Total NEDs	**2017**	**1,679,965**	**–**	**142,476**	**1,822,441**
	2016	**1,542,564**	**–**	**135,602**	**1,678,166**

1. 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.
2. Superannuation contributions made on behalf of Non-executive Directors to satisfy our obligations under applicable Superannuation Guarantee legislation. This does not include any salary sacrifice or employee contributions which are included under *Cash salary and fees*.
3. Received exertion payments for the year ended 31 March 2016 in relation to additional services provided.
4. Mr Iannello and Mr Renard ceased as Non-executive Directors effective 23 July 2015.
5. Mr Mason was appointed as a Non-executive Director effective 18 March 2016.
6. Mr Milliner was appointed as a Non-executive Director effective 23 July 2015.
7. Ms Scheinkestel was appointed as a Non-executive Director effective 18 November 2016.
8. Mr Tan was appointed as a Non-executive Director effective 11 May 2016.

Shareholdings of KMP

All KMP must comply with AusNet Services' Share Trading Policy, which includes a requirement that AusNet Services' shares can only be traded during specified trading windows.

The KMP of AusNet Services have disclosed relevant interests in shares as at 31 March 2017 as follows:

Name	Number of shares at 1 April 2016	Granted during the year as compensation	Acquisitions / (disposals)	Number of shares at 31 March 2017
Non-executive Directors				
Ralph **Craven**	–	–	21,000	21,000
Sally **Farrier**	–	–	67,700	67,700
Ho Tian Yee	–	–	–	–
Peter **Mason**	–	–	100,000	100,000
Tina **McMeckan** [1]	90,000	–	–	90,000
Robert **Milliner**	–	–	–	–
Ng Kee Choe [2]	201,644	–	–	201,644
Nora **Scheinkestel**	–	–	26,642	26,642
Sun Jianxing	–	–	–	–
Tan Chee Meng	–	–	–	–
Executive KMP				
Nino **Ficca** [3]	1,613,183	374,000	–	1,987,183
John **Azaris** [4]	85,600	81,831	–	167,431
Chad **Hymas**	117,944	65,732	9,063	192,739
John **Kelso** [4]	131,410	77,500	259	209,169
Adam **Newman** [5]	76,190	69,731	65,269	211,190
Alistair **Parker**	68,427	78,562	6,502	153,491
Mario **Tieppo** [6]	14,300	62,100	–	76,400

1. Shares held by McMeckan Superannuation Pty Ltd as Trustee for the McMeckan Family Super Fund.
2. Mr Ng retired 11 May 2017. The number of shares disclosed at 31 March 2017 represents the number held at the date that Mr Ng retired.
3. 319,850 shares held by immediate family members of Mr Ficca and 1,667,333 shares held by Mr and Mrs Ficca as Trustees for the Ficca Investment Trust.
4. Mr Azaris and Mr Kelso ceased as KMP on 1 July 2016. The number of shares disclosed at 31 March 2017 represents the number held at the date that Mr Azaris and Mr Kelso ceased to be KMP.
5. Shares held by Newman Family Trust for Mr Newman.
6. Shares held by immediate family members of Mr Tieppo.

STATUTORY DISCLOSURES

Meetings of Directors

We are committed to achieving a high standard of corporate governance. A key role of the Board is to represent and serve the interests of shareholders by overseeing and appraising the strategies, policies and performance of the company. To effectively do this, the following standing committees were in place during FY2017:

> **Audit and Risk Management Committee (ARMC)** – oversees the adequacy and effectiveness of AusNet Services' audit program, risk management processes and internal control systems, including the monitoring of material business risks (financial and non-financial) and corporate compliance;

> **Nomination Committee** – reviews and makes recommendations to the Board in relation to the appointment of new Directors, review of Board and Board Committee membership and performance, Board and CEO succession planning and the appointment of senior managers;

> **Remuneration Committee** – reviews and advises the Board on matters relating to the remuneration of Directors, and the remuneration and performance of senior executives; and

> **Issuing Committee** – this Committee was dissolved in September 2016 and did not meet during the year.

The number of meetings of the Board of Directors and of each standing Board Committee of AusNet Services Ltd held during the year ended 31 March 2017, and the number of meetings attended by each Director, are set out in the following table:

	Board of AusNet Services Ltd		Audit and Risk Management Committee		Nomination Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B
Nino **Ficca**	11	11	–	(6)	–	(1)	–	(6)
Ralph **Craven**	11	11	6	6	1	1	–	–
Sally **Farrier**	11	11	4	4	1	1	6	6
Ho Tian Yee	10	11	3	4	1	1	6	6
Peter **Mason** [1]	10	11	–	(4)	1	1	–	(4)
Tina **McMeckan**	11	11	6	6	1	1	5	6
Robert **Milliner**	11	11	6	6	1	1	2	2
Ng Kee Choe [2]	1	1	–	–	–	–	–	–
Nora **Scheinkestel** [3]	4	4	2	2	–	–	–	–
Sun Jianxing [4]	5	11	–	–	–	1	3	4
Tan Chee Meng [5]	8	10	2	2	1	1	–	–

1. Mr Mason was appointed Chairman effective 11 May 2016.
2. Mr Ng ceased as a Director effective 11 May 2016.
3. Ms Scheinkestel was appointed effective 18 November 2016.
4. Mr Sun recused himself from attending two Board meetings.
5. Mr Tan was appointed effective 11 May 2016.

A = Number of meetings attended while a member.
B = Number of meetings held during the time the Director held office. Where a Director has attended a meeting of a Committee of which he or she was not a member, this is indicated by ( ).

Indemnification and insurance of officers and auditors

The constitution of AusNet Services Ltd provides for the company to indemnify each current and former Director, executive officer (as defined in the constitutions), and such other current and former officers of the company or of a related body corporate as the Directors determine (each an 'Officer'), on a full indemnity basis and to the full extent permitted by law against all liabilities (as defined in the constitutions) incurred by the Officer as an officer of the company or of a related body corporate.

The constitution also provides for AusNet Services Ltd, to the extent permitted by law, to purchase and maintain insurance, or pay or agree to pay a premium for insurance, for each Officer against any liability (as defined in the constitutions) incurred by the Officer as an officer of the company or of a related body corporate.

AusNet Services Ltd may enter into a deed with any Officer to give effect to the rights conferred by the constitutions as described above.

The company has executed protection deeds in favour of each of the Directors, the Company Secretary and certain general managers on substantially the same terms as provided in the constitution. The deeds also give a right of access to the books of the companies and to Board documents (to the Directors only).

During the financial year, we paid a premium to insure the Directors and Company Secretaries of the Australian-based subsidiaries and the Executive General Managers 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 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 63.

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 2015 to 30 June 2016.

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

DIVIDEND

Since the end of the financial year, the Directors have approved a final dividend for FY2017 of $158.5 million (4.40 cents per share) plus a special dividend of $36.0 million (1.00 cents per share) to be paid on 27 June 2017. Both the final dividend and the special dividend will be unfranked.

TRR FINAL DETERMINATION

On 28 April 2017, the Australian Energy Regulator (AER) published the final decision on AusNet Services' 2017–22 Transmission Revenue Proposal. The final decision resulted in a 1.7 per cent increase in revenue from the draft decision. The revenue allowance for the five year period from 1 April 2017 is $2,742 million.

The AER has not accepted AusNet Services' proposed value of imputation credits (known as gamma) preferring a value which is consistent with the AER's position in appeals, which are currently before the Federal Court of Australia. AusNet Services will review its appeal rights in relation to gamma.

Rounding of amounts

AusNet Services is a company of a kind referred to in Instrument 2016/191, 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 Instrument to the nearest hundred thousand dollars unless otherwise stated.

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

Peter Mason
Chairman

Nino Ficca
Managing Director

Melbourne
15 May 2017

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

To the Directors of AusNet Services Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2017 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 J McDonald

Paul J McDonald
Partner

Melbourne

15 May 2017


AusNet

Consolidated income statement

FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 $M	2016 $M
Revenue	B.1	1,881.5	1,919.0
Use of system and associated charges		(99.3)	(98.3)
Easement and land tax		(115.9)	(116.5)
Employee benefits expenses		(252.4)	(235.6)
External maintenance and contractors' services		(97.8)	(104.0)
Materials		(42.0)	(38.9)
Information technology and communication costs		(54.9)	(48.7)
Operating lease rental expenses		(13.8)	(15.0)
Administrative expenses		(42.3)	(55.0)
Service level payments		(19.1)	(6.9)
Disposal of property, plant and equipment		(6.1)	(6.2)
Other costs		(64.6)	(51.4)
Total expenses excluding depreciation, amortisation, interest and tax		**(808.2)**	**(776.5)**
Earnings before interest, tax, depreciation and amortisation		**1,073.3**	**1,142.5**
Depreciation and amortisation	C.1, C.2	(425.9)	(392.3)
Profit from operating activities		**647.4**	**750.2**
Finance income	D.4	18.2	23.0
Finance costs	D.4	(302.3)	(315.3)
Net finance costs		**(284.1)**	**(292.3)**
Profit before income tax		**363.3**	**457.9**
Income tax (expense)/benefit	B.4	(108.2)	31.4
Profit for the year		**255.1**	**489.3**
Basic and diluted earnings per share (cents per share)	B.2	7.15	13.95

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 2017

	Notes	2017 $M	2016 $M
Profit for the year		255.1	489.3
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	F.2	46.5	33.9
Income tax on movement in defined benefit fund	B.4	(14.0)	(10.2)
		32.5	**23.7**
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		82.5	5.5
Income tax on movement in hedge reserve	B.4	(19.4)	(15.8)
	D.3	**63.1**	**(10.3)**
Other comprehensive income for the year, net of tax		**95.6**	**13.4**
Total comprehensive income for the year		**350.7**	**502.7**

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 2017

	Notes	2017 $M	2016 $M
ASSETS			
Current assets			
Cash and cash equivalents		328.8	441.4
Receivables	B.3	214.1	198.5
Desalination licence receivable	C.3	12.4	12.5
Inventories		43.3	52.0
Derivative financial instruments	D.3	5.7	89.1
Current tax receivable		25.9	–
Other assets	B.3	25.1	28.5
Total current assets		**655.3**	**822.0**
Non-current assets			
Inventories		17.4	18.5
Property, plant and equipment	C.1	10,000.0	9,597.1
Intangible assets	C.2	554.8	561.2
Desalination licence receivable	C.3	189.6	198.4
Derivative financial instruments	D.3	306.0	476.3
Other assets		33.4	2.5
Total non-current assets		**11,101.2**	**10,854.0**
Total assets		**11,756.5**	**11,676.0**
LIABILITIES			
Current liabilities			
Payables and other liabilities	B.3	271.3	338.2
Provisions	B.3	106.1	110.6
Borrowings	D.2	398.4	843.5
Derivative financial instruments	D.3	10.3	18.8
Current tax payable		–	3.3
Total current liabilities		**786.1**	**1,314.4**
Non-current liabilities			
Deferred revenue		73.7	57.8
Provisions	B.3	41.9	51.7
Borrowings	D.2	6,266.9	6,054.2
Derivative financial instruments	D.3	303.1	174.3
Deferred tax liabilities	B.4	586.4	465.8
Total non-current liabilities		**7,272.0**	**6,803.8**
Total liabilities		**8,058.1**	**8,118.2**
Net assets		**3,698.4**	**3,557.8**
EQUITY			
Contributed equity	D.5	5,153.2	5,057.3
Reserves		(1,464.5)	(1,529.4)
Retained profits		1,104.8	1,125.0
Other equity		(1,095.1)	(1,095.1)
Total equity		**3,698.4**	**3,557.8**

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 2017

	Notes	Contributed equity $M	Restructure reserve (i) $M
31 March 2017			
Balance as at 1 April 2016		5,057.3	(1,501.1)
Total comprehensive income for the year			
Profit for the year		–	–
Other comprehensive income		–	–
Total comprehensive income for the year		**–**	**–**
Transactions with owners, recorded directly in equity			
Dividends paid	D.6	–	–
Dividend Reinvestment Plan (net of transaction costs)	D.6	95.9	–
Share based payment reserve	F.3	–	(0.8)
Total transactions with owners		**95.9**	**(0.8)**
Balance as at 31 March 2017		**5,153.2**	**(1,501.9)**
31 March 2016			
Balance as at 1 April 2015		3,456.6	–
Total comprehensive income for the year			
Profit for the year		–	–
Other comprehensive income		–	–
Total comprehensive income for the year		**–**	**–**
Transactions with owners, recorded directly in equity			
Dividends paid	D.6	–	–
Dividend Reinvestment Plan (net of transaction costs)	D.6	99.6	–
Share based payment reserve	F.3	–	–
Impact of corporate restructure		1,501.1	(1,501.1)
Total transactions with owners		**1,600.7**	**(1,501.1)**
Balance as at 31 March 2016		**5,057.3**	**(1,501.1)**

(i) Under the corporate restructure, AusNet Services Ltd shares were issued to shareholders in return for their stapled securities. AusNet Services Ltd share capital was measured at fair value on the date of the transaction, being the market capitalisation of the AusNet Services Stapled Group on the date of implementation of 18 June 2015 ($4,957.7 million). The difference between the contributed equity of AusNet Services Ltd and the pre restructure contributed equity of the Stapled Group at the date of the transaction was recognised as a restructure reserve.

(ii) 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.

(iii) This amount represents the fair value uplift to the assets of the AusNet Services Transmission Group on the date that the previous Stapled Group was formed. The fair value uplift was applied to easements which are considered to have an indefinite useful life. The amount was carried into the asset revaluation reserve of the Group following the corporate restructure on 18 June 2015.

(iv) The share based payment reserve represents the tax-effected fair value of the performance rights granted under the 2015 and 2016 tranches of the long term incentive plan. This takes into account estimated vesting and service conditions as at 31 March 2017.

(v) The other equity component results from the application of reverse acquisition accounting and represents the difference between the net assets of AusNet Services (Transmission) Ltd and AusNet Finance Pty Ltd and the purchase price paid by the legal acquirer, AusNet Services (Transmission) Ltd on 20 October 2005.

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

Hedge reserve (ii) $M	Asset revaluation reserve (iii) $M	Share based payment reserve (iv) $M	Other equity component (v) $M	Retained profits $M	Total equity $M
(80.9)	51.4	1.2	(1,095.1)	1,125.0	3,557.8
–	–	–	–	255.1	255.1
63.1	–	–	–	32.5	95.6
63.1	**–**	**–**	**–**	**287.6**	**350.7**
–	–	–	–	(307.8)	(307.8)
–	–	–	–	–	95.9
–	–	2.6	–	–	1.8
–	**–**	**2.6**	**–**	**(307.8)**	**(210.1)**
(17.8)	**51.4**	**3.8**	**(1,095.1)**	**1,104.8**	**3,698.4**
(70.6)	51.4	–	(1,095.1)	906.5	3,248.8
–	–	–	–	489.3	489.3
(10.3)	–	–	–	23.7	13.4
(10.3)	**–**	**–**	**–**	**513.0**	**502.7**
–	–	–	–	(294.5)	(294.5)
–	–	–	–	–	99.6
–	–	1.2	–	–	1.2
–	–	–	–	–	–
–	**–**	**1.2**	**–**	**(294.5)**	**(193.7)**
(80.9)	**51.4**	**1.2**	**(1,095.1)**	**1,125.0**	**3,557.8**

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 $M	2016 $M
Cash flows from operating activities			
Profit for the year		255.1	489.3
Add back interest, tax, depreciation		818.2	653.2
Other non-cash items		4.4	(12.9)
Working capital movement		(0.2)	19.0
Income tax paid (i)		(49.4)	(141.7)
Net interest paid		(285.3)	(296.9)
Net cash inflow from operating activities		**742.8**	**710.0**
Cash flows from investing activities			
Payments for property, plant and equipment (ii)		(888.2)	(692.9)
Proceeds from sale of property, plant and equipment		4.3	0.7
Receipts from desalination licence receivable	C.3	8.8	8.8
Net cash outflow from investing activities		**(875.1)**	**(683.4)**
Cash flows from financing activities			
Dividends paid (iii)	D.6	(211.9)	(194.9)
Proceeds from borrowings		987.8	1,100.0
Repayment of borrowings		(756.2)	(1,373.4)
Net cash inflow/(outflow) from financing activities		**19.7**	**(468.3)**
Net decrease in cash held		(112.6)	(441.7)
Cash and cash equivalents at the beginning of the year		441.4	883.1
Cash and cash equivalents at the end of the year		**328.8**	**441.4**

(i) 2016 includes $69.0 million tax paid in relation to the S163AA dispute and $25.0 million ATO settlement in relation to the stapled structure.

(ii) Net finance costs include a credit of $21.8 million (2016: $24.2 million) for capitalised finance charges which is included in payments for property, plant and equipment.

(iii) Amounts shown represent dividends paid of $307.8 million (2016: $294.5 million) offset by proceeds from the Dividend Reinvestment Plan net of transaction costs of $95.9 million (2016: $99.6 million).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

SECTION A OVERVIEW

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 Ltd and its subsidiaries. The financial statements were approved by the Board of Directors on 15 May 2017.

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;

> on a going concern basis, which contemplates the continuity of normal trading operations. The Group's current liabilities exceed current assets by $130.8 million at 31 March 2017. 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 2017 the Group has available a total of $525.0 million of undrawn but committed non-current bank debt facilities and $328.8 million of cash;

> under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value; and

> with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Instrument 2016/191 issued by the Australian Securities and Investments Commission.

The accounting policies applied by us in this financial report are the same as those applied by us in our consolidated financial report as at and for the year ended 31 March 2016. There have been no new accounting standards relevant to the Group adopted during the period.

For the year ended 31 March 2016, we have amended some categories of expenses to be consistent with how they are reviewed and analysed for internal management purposes.

(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.3 – Working capital

> B.4 – Taxation

> C.1 – Property, plant and equipment

> C.4 – Impairment of non-current assets

> D.3 – Financial risk management

> F.2 – Defined benefit obligations

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 and earnings per share. 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 commercial energy services business.

Following an internal organisation restructure during the year our operating segments have been updated to reflect the way we manage our business. The most notable difference being the classification of unregulated transmission activities from the electricity transmission segment into the commercial energy services segment. The 2016 financials have been restated to provide comparative information to the 2017 operating segments.

(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, including metering. 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, including metering. 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) ELECTRICITY TRANSMISSION

We own and manage the vast majority of the electricity transmission network in Victoria. Our electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power generators to electricity distributors around Victoria forming the backbone of the Victorian electricity network. We charge the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network. The electricity transmission segment does not purchase or sell electricity.

(IV) COMMERCIAL ENERGY SERVICES

The commercial energy services business consists of contracted infrastructure services, emerging energy markets, metering services and asset intelligence services. The contracted infrastructure services component owns and operates a portfolio of infrastructure assets that fall outside the regulated asset base (the largest of which is the Wonthaggi desalination plant connection). The investments are made through directly negotiated agreements, priced either based on an approved negotiating framework or competitively, pursuant to which AusNet Services typically receives revenue over the contract period in exchange for the network service and infrastructure provided.

The customers of this business are primarily operating in the utility and essential infrastructure sectors such as electricity, water, gas and rail companies.

(B) REPORTABLE SEGMENT FINANCIAL INFORMATION

2017	Electricity distribution $M	Gas distribution $M	Electricity transmission $M	Commercial energy services $M	Inter-segment eliminations $M	Consolidated $M
Regulated revenue	825.9	215.6	584.5	–	(11.0)	1,615.0
Unregulated infrastructure revenue	–	–	–	45.5	–	45.5
Customer contributions	28.8	6.0	–	–	–	34.8
Service revenue	–	–	–	154.4	(4.2)	150.2
Other revenue	13.5	2.7	1.5	21.5	(3.2)	36.0
Total segment revenue	**868.2**	**224.3**	**586.0**	**221.4**	**(18.4)**	**1,881.5**
Segment expense before depreciation and amortisation	(400.5)	(59.9)	(204.6)	(161.6)	18.4	(808.2)
Segment result – EBITDA (i)	**467.7**	**164.4**	**381.4**	**59.8**	**–**	**1,073.3**
Depreciation and amortisation	(251.9)	(48.7)	(106.9)	(18.4)	–	(425.9)
Net finance costs						(284.1)
Income tax expense						(108.2)
Profit for the year						**255.1**
Capital expenditure	427.0	87.7	192.2	132.7	–	839.6

2016	Electricity distribution $M	Gas distribution $M	Electricity transmission $M	Commercial energy services $M	Inter-segment eliminations $M	Consolidated $M
Regulated revenue	928.9	180.2	587.1	–	(11.6)	1,684.6
Unregulated infrastructure revenue	–	–	–	35.7	–	35.7
Customer contributions	31.0	5.0	–	–	–	36.0
Service revenue	–	–	–	139.3	(4.7)	134.6
Other revenue	3.7	3.6	3.0	17.8	–	28.1
Total segment revenue	**963.6**	**188.8**	**590.1**	**192.8**	**(16.3)**	**1,919.0**
Segment expense before depreciation and amortisation	(387.7)	(52.1)	(208.8)	(144.2)	16.3	(776.5)
Segment result – EBITDA (i)	**575.9**	**136.7**	**381.3**	**48.6**	**–**	**1,142.5**
Depreciation and amortisation	(234.8)	(48.1)	(94.6)	(14.8)	–	(392.3)
Net finance costs						(292.3)
Income tax benefit						31.4
Profit for the year						**489.3**
Capital expenditure	467.3	92.7	241.6	21.1	–	822.7

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

Note B.1 Segment results (continued)

(C) NOTES TO AND FORMING PART OF SEGMENT INFORMATION

(I) REGULATED REVENUE

Regulated revenue includes revenue earned from the distribution of electricity and gas and transmission of electricity in accordance with the relevant regulatory determination, as well as revenue earned from alternative control services (distribution), and negotiated and prescribed projects (transmission). 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) UNREGULATED INFRASTRUCTURE REVENUE

Unregulated infrastructure revenues relate to contestable electricity projects whereby we typically build, own and operate assets and earn contracted annual revenues from customers connecting to the assets and/or from AEMO. In addition we earn revenues from the operation and maintenance services provided in connection with desalination electricity infrastructure assets. These revenues are recognised over the contract period as the services are rendered.

(III) 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.

(IV) 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.

(V) 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.

(VI) 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 Methodology as approved by the Australian Energy Regulator (AER) is used as the basis for allocating expenses to the relevant segment.

Segment revenues, expenses and results include transmission network connection charges between the electricity distribution and electricity transmission segments. The prices for such transfers are regulated and are eliminated on consolidation.

Note B.2 Earnings per share

(A) BASIC EARNINGS PER SHARE

		2017	2016
	Profit attributable to ordinary shareholders of AusNet Services ($M)	255.1	489.3
divided by	Weighted average number of shares (million)	3,570	3,507
equals	Earnings per share (cents)	7.15	13.95

(B) DILUTED EARNINGS PER SHARE

There were no factors causing a dilution of either the profit or loss attributable to ordinary shareholders or the weighted average number of ordinary shares outstanding. Accordingly, basic and diluted earnings per share are the same.

Note B.3 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	
	2017 $M	2016 $M	2017 $M	2016 $M
Accounts receivable/payable	51.3	32.1	(27.0)	(71.0)
Mickleham bushfire settlement	5.0	–	(5.0)	–
Accrued revenue/accrued expenses	153.6	160.6	(127.8)	(170.0)
Related party receivables/payables	3.3	4.6	(21.5)	(21.6)
Customer deposits	–	–	(22.4)	(20.6)
Deferred revenue	–	–	(15.7)	(13.6)
Other receivables/payables	0.3	0.3	(13.0)	(4.4)
Interest receivables/payables	0.6	0.9	(38.9)	(37.0)
Total current receivables/payables	**214.1**	**198.5**	**(271.3)**	**(338.2)**
Current other assets	25.1	28.5	–	–
Current provisions	–	–	(106.1)	(110.6)
Working capital	**239.2**	**227.0**	**(377.4)**	**(448.8)**

Note B.3 Working capital (continued)

(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 transmission, distribution and specialist utility services is ten business days.

The ageing of accounts receivable as at reporting date was:

	Gross 2017 $M	Allowance 2017 $M	Gross 2016 $M	Allowance 2016 $M
Not past due	40.5	–	18.3	–
0 – 30 days	3.8	–	8.2	–
31 – 60 days	1.4	–	0.8	–
61 – 90 days	0.9	–	1.4	–
Greater than 90 days	4.8	(0.1)	3.5	(0.1)
Total	**51.4**	**(0.1)**	**32.2**	**(0.1)**

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 85.8 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. 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 end of month.

(C) PROVISIONS

	2017 $M	2016 $M
Current provisions		
Employee benefits (i)	87.2	94.4
Sundry provisions (ii)	7.4	13.6
Redundancy provision	6.6	2.1
Environmental provision (iii)	4.9	0.5
Total current provisions	**106.1**	**110.6**
Non-current provisions		
Employee benefits (i)	8.8	7.4
Environmental provision (iii)	27.8	30.3
Make good provision	5.3	2.7
Defined benefit funds	–	11.3
Total non-current provisions	**41.9**	**51.7**
Total provisions	**148.0**	**162.3**

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 a term to maturity and currency that match, as closely as possible, the estimated future cash outflows.

ii. Sundry provisions mostly include uninsured losses, make good provisions and cross boundary charges. Prior year included bushfire litigation cost provision that was fully utilised in FY17.

iii. 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.4 **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 AusNet Services Ltd. 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 or the interpretation of tax laws by tax authorities may affect the amount of provision for income taxes and deferred tax balances recognised.

(A) EFFECTIVE TAX RATE RECONCILIATION

	2017 $M	2016 $M
Profit before income tax	363.3	457.9
Tax at the Australian tax rate of 30.0% (2016: 30.0%)	109.0	137.4
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:		
Impact of entry into new tax consolidated group (i)	–	(135.0)
Net tax and interest on intellectual property dispute (ii)	–	(28.1)
Prior year (over)/under provisions	(0.4)	0.6
Sundry items	(0.4)	(6.3)
Income tax expense/(benefit)	**108.2**	**(31.4)**
Consists of:		
Current tax	20.0	0.4
Prior year under provision – current tax	0.1	0.5
Deferred tax	88.6	(32.4)
Prior year (over)/under provision – deferred tax	(0.5)	0.1
Income tax expense/(benefit)	**108.2**	**(31.4)**

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. AusNet Services Ltd formed a single tax consolidated group that replaced 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 the AusNet Services (Distribution) Ltd tax consolidated group were reset with a valuation uplift of $976.3 million recognised. As a result, deferred tax liabilities were reduced by $292.9 million (being the tax effect of the valuation uplift);
   > the change to a new tax consolidated group triggered the cancellation of certain historical tax losses under the Same Business Test and an increase in deferred tax liabilities of $153.0 million; and
   > the change to a new tax consolidated group required the reversal of historical deferred tax on derivative financial instruments ($4.9 million).

ii. We executed a binding Settlement Deed with the ATO to settle the dispute relating to intellectual property deductions claimed by us in the 1998 to 2010 tax years. As at 31 March 2015, we had recognised an $84.1 million tax charge in relation to the total disputed amounts. As a result of the settlement, $28.1 million of prior period tax expense was credited to income tax expense.

(B) CURRENT TAX

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(C) DEFERRED TAX

	Deferred tax assets / (Deferred tax liabilities)				
	1 April 2016 $M	Prior year under/overs $M	(Charged)/credited to income statement $M	Charged/(credited) directly in equity $M	31 March 2017 $M
2017					
Employee benefits	31.0	(0.2)	(1.9)	–	28.9
Other accruals and provisions	44.2	3.0	3.5	0.9	51.6
Derivative financial instruments and fair value adjustments on borrowings	(25.2)	–	5.6	(19.4)	(39.0)
Tax losses	11.3	–	(11.3)	–	–
Defined benefit funds	1.7	1.6	0.9	(14.0)	(9.8)
Intangibles	(26.7)	–	0.1	–	(26.6)
Desalination licence receivable	(14.5)	–	(4.4)	–	(18.9)
Property, plant and equipment	(487.6)	(3.9)	(81.1)	–	(572.6)
Net deferred tax liabilities	**(465.8)**	**0.5**	**(88.6)**	**(32.5)**	**(586.4)**

	1 April 2015 $M	Prior year under/overs $M	(Charged)/credited to income statement $M	Charged/(credited) directly in equity $M	31 March 2016 $M
2016					
Employee benefits	25.6	0.2	5.2	–	31.0
Other accruals and provisions	37.8	2.9	3.5	–	44.2
Derivative financial instruments and fair value adjustments on borrowings	38.3	–	(47.7)	(15.8)	(25.2)
Tax losses	228.3	(2.0)	(215.0)	–	11.3
Defined benefit funds	11.9	–	–	(10.2)	1.7
Intangibles	(4.7)	–	(22.0)	–	(26.7)
Desalination licence receivable	(10.1)	–	(4.4)	–	(14.5)
Property, plant and equipment	(796.4)	(1.2)	310.0	–	(487.6)
Other	(2.8)	–	2.8	–	–
Net deferred tax liabilities	**(472.1)**	**(0.1)**	**32.4**	**(26.0)**	**(465.8)**

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.

Note B.4 Taxation (continued)
(C) Deferred Tax (continued)

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.

(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 its 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 each head entity from the subsidiaries in the tax consolidated group are recognised in conjunction with any tax funding arrangement amounts.

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.

During FY2017, an additional $7.0 million depreciation charge was recognised in relation to the early decommissioning of three synchronous condensers in our transmission network. The synchronous condensers were identified as assets no longer required and while the regulatory recovery for this early decommissioning will be received over the coming five year period, accounting standards require that assets are fully depreciated when retired.

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

	Freehold land $M	Buildings $M	Easements $M
Useful life (years)	Indefinite	40–99	Indefinite
2017			
Carrying amount as at 1 April 2016	251.1	363.0	1,219.2
Additions	–	–	–
Transfers	2.1	66.8	–
Disposals	–	(0.6)	–
Depreciation expense	–	(18.6)	–
Carrying amount as at 31 March 2017	**253.2**	**410.6**	**1,219.2**
Cost	253.2	499.8	1,219.2
Accumulated depreciation	–	(89.2)	–
Carrying amount as at 31 March 2017	**253.2**	**410.6**	**1,219.2**

	Freehold land $M	Buildings $M	Easements $M
Useful life (years)	Indefinite	40–99	Indefinite
2016			
Carrying amount as at 1 April 2015	251.2	268.2	1,219.2
Additions	–	–	–
Transfers	–	105.4	–
Disposals	(0.1)	–	–
Depreciation expense	–	(10.6)	–
Carrying amount as at 31 March 2016	**251.1**	**363.0**	**1,219.2**
Cost	251.1	433.7	1,219.2
Accumulated depreciation	–	(70.7)	–
Carrying amount as at 31 March 2016	**251.1**	**363.0**	**1,219.2**

	Transmission network $M	Electricity distribution network $M	Gas distribution network $M	Other plant and equipment $M	Capital work in progress $M	Total $M
	15–70	5–70	15–80	3–12	n/a	
	1,867.9	3,698.0	1,474.3	206.1	517.5	9,597.1
	–	–	–	–	789.6	789.6
	271.4	371.1	83.2	115.5	(910.1)	–
	(1.8)	(5.2)	(2.2)	(0.8)	–	(10.6)
	(82.2)	(162.6)	(40.0)	(72.7)	–	(376.1)
	2,055.3	**3,901.3**	**1,515.3**	**248.1**	**397.0**	**10,000.0**
	2,780.5	5,149.3	1,930.5	665.6	397.0	12,895.1
	(725.2)	(1,248.0)	(415.2)	(417.5)	–	(2,895.1)
	2,055.3	**3,901.3**	**1,515.3**	**248.1**	**397.0**	**10,000.0**

	Transmission network $M	Electricity distribution network $M	Gas distribution network $M	Other plant and equipment $M	Capital work in progress $M	Total $M
	15–70	5–70	15–80	3–12	n/a	
	1,839.7	3,480.9	1,428.6	243.4	507.4	9,238.6
	–	–	–	–	714.2	714.2
	102.9	370.0	88.9	36.5	(704.1)	(0.4)
	(0.4)	(2.3)	(3.6)	(0.5)	–	(6.9)
	(74.3)	(150.6)	(39.6)	(73.3)	–	(348.4)
	1,867.9	**3,698.0**	**1,474.3**	**206.1**	**517.5**	**9,597.1**
	2,515.8	4,890.4	1,852.3	569.6	517.5	12,249.6
	(647.9)	(1,192.4)	(378.0)	(363.5)	–	(2,652.5)
	1,867.9	**3,698.0**	**1,474.3**	**206.1**	**517.5**	**9,597.1**

Note C.2 Intangible assets

	Distribution licences (i) $M	Goodwill (ii) $M	Software (iii) $M	Other intangible assets $M	Total $M
Useful life (years)	Indefinite	Indefinite	3–10	3–10	
Year ended 31 March 2017					
Carrying amount as at 1 April 2016	354.5	35.8	168.4	2.5	561.2
Additions	–	–	43.4	–	43.4
Amortisation expense	–	–	(49.2)	(0.6)	(49.8)
Carrying amount as at 31 March 2017	**354.5**	**35.8**	**162.6**	**1.9**	**554.8**
Cost	354.5	35.8	508.3	7.4	906.0
Accumulated amortisation	–	–	(345.7)	(5.5)	(351.2)
Carrying amount as at 31 March 2017	**354.5**	**35.8**	**162.6**	**1.9**	**554.8**
Year ended 31 March 2016					
Carrying amount as at 1 April 2015	354.5	35.8	103.3	2.6	496.2
Additions	–	–	108.5	–	108.5
Transfers	–	–	–	0.4	0.4
Amortisation expense	–	–	(43.4)	(0.5)	(43.9)
Carrying amount as at 31 March 2016	**354.5**	**35.8**	**168.4**	**2.5**	**561.2**
Cost	354.5	35.8	464.9	7.4	862.6
Accumulated amortisation	–	–	(296.5)	(4.9)	(301.4)
Carrying amount as at 31 March 2016	**354.5**	**35.8**	**168.4**	**2.5**	**561.2**

(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.

(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 at least annually.

(III) SOFTWARE

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 Desalination licence receivable

	2017 $M	2016 $M
Desalination licence receivable		
Current receivable	12.4	12.5
Non-current receivable	189.6	198.4
Total desalination receivable	**202.0**	**210.9**

In December 2012 we entered into a 27 year licence agreement with the Victorian State Government for the right to operate and maintain the 87 kilometre high voltage underground transmission line supplying electricity to the Victorian desalination plant in Wonthaggi. At the same time, we entered into a 27 year agreement with the desalination plant operator to operate and maintain the transmission line in return for a monthly revenue payment.

The upfront payment of $235 million plus transaction costs of $1.2 million for the licence has been classified as a receivable. This receivable is interest bearing and $8.8 million (2016: $8.8 million) of the total cash flows received from the operator during the year has been allocated against this receivable balance. The monthly revenue payment received from the operator is fixed, with an annual adjustment for inflation. Any amounts not received from the operator, but which are past due, can be recovered from the Victorian State Government.

At the end of the agreements we are required to hand back the transmission line and all associated assets. In the event of early termination of the agreements, the unamortised portion of the upfront licence payment is refunded, along with the reimbursement of necessary costs incurred in order to effect the termination.

Note C.4 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 electricity metering assets form part of the electricity distribution CGU as the metering 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 metering 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 recoverable amount, the details of which are provided on the following page.

Note C.4 Impairment of non-current assets (continued)

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

	Cash flow projection period (i)	Post tax discount rate (ii)	Carrying value	
	Years	%	2017 $M	2016 $M
Regulated CGUs				
Electricity distribution (distribution licence)	20	5.0	117.2	117.2
Gas distribution (distribution licence)	20	5.0	237.3	237.3
Unregulated CGUs				
Asset Solutions business (goodwill)	5	10.2	11.8	11.8
Geomatic Technologies (goodwill)	5	7.4	23.7	23.7

Recoverable amount is the higher of fair value less costs to sell and value in use.

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. The 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.

Appropriate terminal values were calculated using a range of both 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.5 **Commitments**

(A) CAPITAL COMMITMENTS

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

	2017 $M	2016 $M
Property, plant and equipment	306.8	526.8

(B) LEASE COMMITMENTS

Our leases relate to premises, vehicles, network land and access sites under non-cancellable operating leases. 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:

	2017 $M	2016 $M
Payable:		
Within one year	18.5	19.4
Later than one year, but no later than five years	38.5	46.4
Later than five years	9.4	10.3
	66.4	**76.1**
Representing:		
Non-cancellable operating leases	66.4	76.1

SECTION D FINANCING OUR BUSINESS

This section provides information relating to our capital structure and our exposure to financial risks, 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 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:

> Regulated Asset Base (RAB), which is subject to some estimation as the AER ultimately determines the RAB of each network; and

> The value of contracted network assets whose revenues and returns are set through a negotiated or competitive process. This includes the value of network assets that will form part of the RAB at the next regulatory period, as well as the carrying value of the desalination licence receivable.

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 funds from operations (FFO) to debt and Interest cover.

The net debt to R&CAB ratio as at reporting date was as follows:

	2017 %	2016 %
Net debt to R&CAB	67.9	67.2

This ratio does not include equity credits in relation to $705 million of hybrid securities.

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)	
	Maturity date	2017 $M	2016 $M	2017 $M	2016 $M
Current borrowings					
Domestic medium term notes	Sep 2017	305.4	–	300.0	–
Bank debt facilities	Apr 2017	93.0	–	93.0	–
Swiss franc (CHF) senior notes	–	–	340.9	–	271.7
US dollar (USD) senior notes	–	–	502.6	–	484.5
Total current borrowings		**398.4**	**843.5**	**393.0**	**756.2**
Non-current borrowings					
US dollar (USD) senior notes	2026	103.3	–	107.0	–
Swiss franc (CHF) senior notes	2019	368.4	385.6	283.2	283.2
Domestic medium term notes	2020–2027	1,512.0	1,418.7	1,454.7	1,322.0
Pound sterling (GBP) senior notes	2018	438.4	514.1	537.5	537.5
Floating rate notes	2020	99.8	99.7	100.0	100.0
Euro (EUR) senior notes	2020–2027	2,020.3	2,202.2	2,078.3	2,078.3
Hong Kong dollar (HKD) senior notes	2020–2028	702.0	527.2	641.7	435.0
Japanese yen (JPY) senior notes	2024	62.3	62.0	62.6	62.6
Norwegian kroner (NOK) senior notes	2027–2029	298.4	162.9	319.4	159.7
US dollar (USD) hybrid securities (ii)	2076	473.8	488.3	505.7	505.7
Singapore dollar (SGD) hybrid securities (ii)	2076	188.2	193.5	199.6	199.6
Total non-current borrowings		**6,266.9**	**6,054.2**	**6,289.7**	**5,683.6**
Total borrowings		**6,665.3**	**6,897.7**	**6,682.7**	**6,439.8**
less: cash and cash equivalents		328.8	441.4	328.8	441.4
Net debt		**6,336.5**	**6,456.3**	**6,353.9**	**5,998.4**

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 100 per cent of the debt hedged for foreign currency risk at draw down.

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

(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 of 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 2017. The fair value of total borrowings as at 31 March 2017 was $7,297.8 million (2016: $7,546.8 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 $74.5 million, of which $5.6 million was provided to third parties at 31 March 2017 (2016: $4.9 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 that we suffer 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 by the Audit and Risk Management Committee periodically. 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, the 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 AusNet Services 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.

(A) INTEREST RATE RISK

We are exposed to the risk of movements in interest rates on our borrowings. In addition, our regulated revenues for the transmission and 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 use a Trailing Average Portfolio approach to settling the weighted average cost of capital. This approach assumes that 10 per cent of the debt for each network is refinanced each year. As such the 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. We therefore consider net interest rate exposure, after hedging activities, to be minimal for the Group. The percentage of fixed rate debt to total debt (on a net debt basis) as at 31 March 2017 was 98.3 per cent (2016: 99.8 per cent).

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.

	2017 $M	2016 $M
Financial assets		
Fixed rate instruments	231.1	380.0
Floating rate instruments	91.0	50.0
Financial liabilities (i)		
Fixed rate instruments	(6,254.9)	(6,047.8)
Floating rate instruments	(427.8)	(391.9)

i. 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 the 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.

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 0.80 per cent as at 31 March 2017 (2016: 0.89 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)	
	2017 $M	2016 $M	2017 $M	2016 $M
Increase in Australian interest rates with all other variables held constant	0.7	4.2	293.4	242.7
Decrease in Australian interest rates with all other variables held constant	(1.4)	(2.2)	(315.8)	(255.3)

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 derivative financial instruments as either fair value hedges or cash flow hedges:

<table>
<tr><th></th><th>Fair value hedges</th><th>Cash flow hedges</th></tr>
<tr><td>Objective of the hedge</td><td>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.</td><td>To mitigate the variability in cash flows attributable to variable interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.</td></tr>
<tr><td>Treatment of changes in fair value of qualifying hedges</td><td>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.</td><td>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.</td></tr>
<tr><td>Documentation of the hedge relationship</td><td colspan="2">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 our 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.</td></tr>
<tr><td rowspan="2">Discontinuation of hedge accounting</td><td colspan="2">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.</td></tr>
<tr><td>After discontinuation, the previously hedged asset or liability is no longer revalued for changes in fair value.</td><td>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.</td></tr>
</table>

(II) 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 $M	Forward foreign currency contracts $M	Cross-currency swaps $M	Total net derivative financial instruments $M
2017				
Current assets	5.7	–	–	5.7
Non-current assets	114.1	–	191.9	306.0
Current liabilities	(10.1)	(0.2)	–	(10.3)
Non-current liabilities	(81.5)	(0.5)	(221.1)	(303.1)
Total derivative financial instruments	**28.2**	**(0.7)**	**(29.2)**	**(1.7)**
Consists of:				
> fair value hedges	73.3	–	(197.7)	(124.4)
> cash flow hedges	(44.7)	(0.7)	168.5	123.1
> not in a hedge relationship	(0.4)	–	–	(0.4)
Total derivative financial instruments	**28.2**	**(0.7)**	**(29.2)**	**(1.7)**

	Interest rate swaps $M	Forward foreign currency contracts $M	Cross-currency swaps $M	Total net derivative financial instruments $M
2016				
Current assets	5.5	0.3	83.3	89.1
Non-current assets	104.4	–	371.9	476.3
Current liabilities	(18.0)	(0.8)	–	(18.8)
Non-current liabilities	(123.4)	(0.4)	(50.5)	(174.3)
Total derivative financial instruments	**(31.5)**	**(0.9)**	**404.7**	**372.3**
Consists of:				
> fair value hedges	96.8	–	94.5	191.3
> cash flow hedges	(128.3)	(0.9)	311.3	182.1
> not in a hedge relationship	–	–	(1.1)	(1.1)
Total derivative financial instruments	**(31.5)**	**(0.9)**	**404.7**	**372.3**

Note D.3 Financial risk management (continued)
(C) Derivative financial instruments used to hedge interest rate and currency risks (continued)

(II) MEASUREMENT AND CLASSIFICATION (CONTINUED)

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 2017 is $35.2 million (2016: $40.3 million).

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 using valuation techniques and available 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 and risk premiums are included in the determination of net fair value.

(III) OFFSETTING 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 2017, derivative assets and liabilities would be reduced by $163.7 million respectively (2016: $172.7 million). Refer to the below table:

	Gross amounts in the financial statements $M	Amounts subject to master netting arrangements $M	Net amount $M
2017			
Derivative financial assets	311.7	(163.7)	148.0
Derivative financial liabilities	(313.4)	163.7	(149.7)
	(1.7)	–	**(1.7)**
2016			
Derivative financial assets	565.4	(172.7)	392.7
Derivative financial liabilities	(193.1)	172.7	(20.4)
	372.3	–	**372.3**

(IV) CASH FLOW HEDGES

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

	Change in value of hedged item used to measure ineffectiveness (i) $M	Change in value of hedging instrument used to measure ineffectiveness (i) $M	Nominal amounts of hedging instruments (i) $M
Interest rate risk	(76.9)	70.4	14,014.7
Foreign currency risk – debt	133.3	(129.5)	2,711.4
Foreign currency risk – capital expenditure	(0.2)	0.2	125.6

i. Nominal amounts represent the total principal in each hedging instrument (derivative) in cash flow 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 cash flow hedges and fair value hedges is $14,816.8 million.

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

	2017 $M	2016 $M
Opening balance of cash flow hedge reserve	(80.9)	(70.6)
Amounts recognised in other comprehensive income, net of income tax:		
Changes in fair value of cash flow hedges (excluding foreign currency spreads)	(23.6)	(69.6)
Amounts reclassified to interest expense for effective hedges	72.4	77.6
Changes in foreign currency basis spreads	8.9	(4.2)
Tax effect of derivatives step up	5.4	(14.1)
Total amounts recognised in other comprehensive income, net of income tax	**63.1**	**(10.3)**
Closing balance of cash flow hedge reserve	**(17.8)**	**(80.9)**

Note D.3 Financial risk management (continued)
(C) Derivative financial instruments used to hedge interest rate and currency risks (continued)

(IV) CASH FLOW HEDGES (CONTINUED)

The following table summarises our cash flow hedges:

	2017 $M	2016 $M
Highly probable forecast asset purchase:		
Less than 1 year	(0.2)	(0.6)
1 – 2 years	(0.2)	(0.1)
2 – 5 years	(0.3)	(0.2)
	(0.7)	**(0.9)**
Borrowings:		
Less than 1 year	(80.7)	(78.9)
1 – 2 years	(59.3)	(43.0)
2 – 5 years	(44.3)	(56.1)
Greater than 5 years	(145.4)	(157.6)
	(329.7)	**(335.6)**

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.

(V) FAIR VALUE HEDGES

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

	Carrying amount of the hedged item $M	Accumulated amount of fair value adjustments on hedged items $M	Gain/(loss) on remeasurement of hedged item $M	Gain/(loss) on remeasurement of hedging instruments $M	Nominal amounts of hedging instruments (i) $M
AUD denominated borrowings	(2,010.3)	(71.0)	22.2	(22.0)	1,185.0
Foreign currency denominated borrowings	(4,655.0)	63.4	315.3	(296.3)	7,862.4

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 cash flows total $14,816.8 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 papers 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 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 contracted 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 the reporting date.

Note D.3 Financial risk management (continued)
(D) Liquidity risk (continued)

(I) CONTRACTUAL CASH FLOWS (CONTINUED)

2017	Notes	Principal at face value $M	Carrying amount $M
Financial assets			
Non-derivative financial assets			
Cash and cash equivalents		328.8	328.8
Accounts and other receivables	B.3	214.1	214.1
Desalination licence receivable	C.3	202.0	202.0
Derivative financial assets			
Interest rate swaps			119.8
Cross-currency swaps			191.9
Forward foreign currency contracts			–
> Inflow			
> Outflow			
			1,056.6
Financial liabilities			
Non-derivative financial liabilities			
Trade and other payables	B.3	233.2	233.2
Bank debt facilities		93.0	93.0
Domestic medium term notes		1,754.7	1,817.4
Floating rate notes		100.0	99.8
USD senior notes		107.0	103.3
GBP senior notes		537.5	438.4
CHF senior notes		283.2	368.4
HKD senior notes		641.7	702.0
JPY senior notes		62.6	62.3
EUR senior notes		2,078.3	2,020.3
NOK senior notes		319.4	298.4
USD hybrid securities (i)		505.7	473.8
SGD hybrid securities (i)		199.6	188.2
Derivative financial liabilities			
Interest rate swaps			91.6
Cross-currency swaps			221.1
Forward foreign currency contracts			0.7
> Inflow			
> Outflow			
			7,211.9
Net cash outflow			

(i) The table above assumes that the Group will exercise the first call date in September 2021.

Total contractual cash flows $M	Less than 1 year $M	1 – 2 years $M	2 – 5 years $M	Greater than 5 years $M
328.8	328.8	–	–	–
214.1	214.1	–	–	–
342.8	24.6	20.5	58.1	239.6
189.9	8.7	13.2	74.3	93.7
(27.7)	(19.1)	(20.6)	52.3	(40.3)
1.8	1.8	–	–	–
(1.8)	(1.8)	–	–	–
1,047.9	**557.1**	**13.1**	**184.7**	**293.0**
233.2	233.2	–	–	–
93.0	93.0	–	–	–
2,260.3	382.7	80.8	779.2	1,017.6
111.0	3.4	3.6	104.0	–
135.6	3.4	3.4	10.3	118.5
470.0	29.3	440.7	–	–
371.5	4.0	4.0	363.5	–
909.9	23.1	23.2	245.2	618.4
65.0	0.8	0.8	2.5	60.9
2,255.4	43.0	43.0	810.6	1,358.8
405.6	7.6	9.7	29.1	359.2
618.8	28.3	28.3	562.2	–
234.1	10.3	10.3	213.5	–
101.8	29.8	18.9	17.6	35.5
657.3	21.2	134.2	181.9	320.0
(13.1)	(5.0)	(3.8)	(4.3)	–
13.8	5.3	4.0	4.5	–
8,923.2	**913.4**	**801.1**	**3,319.8**	**3,888.9**
(7,875.3)	**(356.3)**	**(788.0)**	**(3,135.1)**	**(3,595.9)**

Note D.3 Financial risk management (continued)
(D) Liquidity risk (continued)

(I) CONTRACTUAL CASH FLOWS (CONTINUED)

2016	Notes	Principal at face value $M	Carrying amount $M
Financial assets			
Non-derivative financial assets			
Cash and cash equivalents		441.4	441.4
Accounts and other receivables	B.3	198.5	198.5
Desalination licence receivable	C.3	210.9	210.9
Derivative financial assets			
Interest rate swaps			109.9
Cross-currency swaps			455.2
Forward foreign currency contracts			0.3
> Inflow			
> Outflow			
			1,416.2
Financial liabilities			
Non-derivative financial liabilities			
Trade and other payables	B.3	304.0	304.0
Domestic medium term notes		1,322.0	1,418.7
Floating rate notes		100.0	99.7
USD senior notes		484.5	502.6
GBP senior notes		537.5	514.1
CHF senior notes		554.9	726.5
HKD senior notes		435.0	527.2
JPY senior notes		62.6	62.0
EUR senior notes		2,078.3	2,202.2
NOK senior notes		159.7	162.9
USD hybrid securities		505.7	488.3
SGD hybrid securities		199.6	193.5
Derivative financial liabilities			
Interest rate swaps			141.4
Cross-currency swaps			50.5
Forward foreign currency contracts			1.2
> Inflow			
> Outflow			
			7,394.8
Net cash outflow			

Total contractual cash flows $M	Less than 1 year $M	1 – 2 years $M	2 – 5 years $M	Greater than 5 years $M
441.4	441.4	–	–	–
198.5	198.5	–	–	–
364.4	25.2	21.0	59.8	258.4
128.2	37.3	21.2	48.3	21.4
(143.6)	25.6	(35.3)	26.1	(160.0)
15.0	12.8	0.2	1.3	0.7
(14.7)	(12.5)	(0.2)	(1.3)	(0.7)
989.2	**728.3**	**6.9**	**134.2**	**119.8**
304.0	304.0	–	–	–
1,714.2	84.6	364.0	749.8	515.8
115.5	3.8	3.6	108.1	–
509.6	509.6	–	–	–
569.1	33.4	33.4	502.3	–
734.9	348.8	4.2	381.9	–
666.8	16.8	16.9	163.5	469.6
64.9	0.8	0.8	2.4	60.9
2,446.1	45.7	45.7	880.4	1,474.3
221.3	5.6	5.6	16.9	193.2
644.7	28.2	28.2	84.5	503.8
252.4	10.7	10.7	32.0	199.0
173.9	52.5	29.8	31.5	60.1
186.3	3.0	2.4	99.8	81.1
(51.9)	(43.1)	(3.2)	(5.6)	–
53.1	43.9	3.4	5.8	–
8,604.9	**1,448.3**	**545.5**	**3,053.3**	**3,557.8**
(7,615.7)	**(720.0)**	**(538.6)**	**(2,919.1)**	**(3,438.0)**

Note D.3 Financial risk management (continued)
(D) Liquidity risk (continued)

(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:

Financing facilities (face value)	2017 $M	2016 $M
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	93.0	–
> Amount unused	7.0	100.0
	100.0	**100.0**
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement:		
> Amount used	–	–
> Amount unused	525.0	775.0
	525.0	**775.0**
Total financing facilities	**627.5**	**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.3). Our exposure and the credit ratings of our counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Revenues from a single customer, AEMO, in our electricity transmission segment, represents 26 per cent (2016: 26 per cent) of our total revenues. We are licensed to transmit electricity in Victoria, whereas AEMO is the provider of shared network services and the planner, authoriser, contractor and director of augmentation of the declared shared network in Victoria. A network agreement is in place between both parties whereby we receive network charges from AEMO for the use of our transmission network to transmit electricity to participants in the market. Due to the nature of this network agreement, we do not believe that there is any significant credit risk exposure on this customer. Therefore we consider the credit risk exposure to be minimal.

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 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 $221.1 million on term deposit and $255.7 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 table on the next page, 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 in the table on the next page 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 on the next page exclude any offsetting financial liabilities with the particular counterparty.

	2017 $M	2016 $M
Financial assets and other credit exposures		
Cross currency swaps	193.6	437.7
USD interest rate swaps	–	7.8
AUD interest rate swaps	184.4	147.6

Note D.4 **Net finance costs**

	2017 $M	2016 $M
Finance income		
Interest income	5.4	9.7
Return on desalination licence receivable	12.8	13.3
Total finance income	**18.2**	**23.0**
Finance costs		
Interest expense	328.8	341.1
Other finance charges – cash	3.2	3.1
Other finance charges – non-cash	6.4	5.3
(Gain)/loss on fair value hedges	(19.1)	3.8
(Gain)/loss on transactions not in a hedge relationship	(0.7)	1.1
Loss/(gain) on ineffective portion of cash flow hedges	2.7	(18.1)
Unwind of discount on provisions	2.6	2.3
Defined benefit net interest expense	0.2	0.9
Capitalised finance charges	(21.8)	(24.2)
Total finance costs	**302.3**	**315.3**
Net finance costs	**284.1**	**292.3**

Finance income comprises interest income on funds invested and the return on the desalination licence receivable (refer to Note C.3). 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 5.0 per cent (2016: 5.1 per cent) applicable to our outstanding borrowings at the end of the period.

Note D.5 Equity

Share capital	Notes	2017 Shares	2016 Shares
Ordinary shares – fully paid (million)	(a), (b)	3,603.2	3,537.6

(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 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	Issue price	Number of shares	$M
1 April 2016	Opening balance		3,537,635,150	5,057.3
22 June 2016	Dividend Reinvestment Plan (i)	$1.52	27,822,058	42.2
22 December 2016	Dividend Reinvestment Plan (i)	$1.43	37,697,804	53.7
31 March 2017	**Closing balance**		**3,603,155,012**	**5,153.2**
1 April 2015	Opening balance		3,466,913,009	3,456.6
18 June 2015	Impact of corporate restructure		–	1,501.1
26 June 2015	Dividend Reinvestment Plan (i)	$1.38	41,801,443	57.7
24 December 2015	Dividend Reinvestment Plan (i)	$1.45	28,920,698	41.9
31 March 2016	**Closing balance**		**3,537,635,150**	**5,057.3**

i. The value of DRP is net of transaction costs.

Note D.6 Dividends

The following dividends were approved and paid by AusNet Services to shareholders during the current financial year:

Dividends	Paid by	Date paid	Cents per share	Total dividend $M
Final FY16 dividend	AusNet Services	22 June 2016	4.265	150.9
Interim FY17 dividend	AusNet Services	22 December 2016	4.400	156.9
Total dividends			**8.665**	**307.8**

In relation to the dividends paid in the current financial year of $307.8 million (2016: $294.5 million), $95.9 million (2016: $99.6 million) was utilised in the allotment of new shares issued under the Dividend Reinvestment Plan (DRP), net of transaction costs.

The following dividends were approved and paid by AusNet Services to shareholders during the previous financial year:

Dividends	Paid by	Date paid	Cents per share	Total dividend $M
Final FY15 dividend	AusNet Services	26 June 2015	4.180	144.9
Interim FY16 dividend	AusNet Services	24 December 2015	4.265	149.6
Total dividends			**8.445**	**294.5**

(A) FRANKING ACCOUNT

	2017 $M	2016 $M
Franking credits available to shareholders for subsequent financial years	(26.4)	51.2

The above available amounts are based on the balance of the dividend franking account at year end adjusted for the reduction in franking credits that will arise from the receipt of tax refund for FY2017 from the ATO. We expect that this negative balance will be offset by tax instalments made in the year ended 31 March 2018.

The refund for FY2017 arises primarily from increased deferred tax resulting from differing tax and book depreciation profiles (refer to note B.4 for further details).

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 and related party transactions.

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**	**2017 %**	**2016 %**
AusNet Services Ltd	**Australia**	**Ordinary**		
AusNet Services (Distribution) Ltd	Australia	Ordinary	100.0	100.0
AusNet Services (RE) Ltd	Australia	Ordinary	100.0	100.0
AusNet Distribution Group Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet LDP (No.1) Ltd	UK	n/a	100.0	100.0
AusNet LDP (No.2) Ltd	UK	n/a	100.0	100.0
AusNet Holdings General Partner Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Holdings (Partnership) Ltd Partnership	Australia	n/a	100.0	100.0
AusNet Services Holdings Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Electricity Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Asset Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet (No. 8) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet (No. 9) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Gas Services Pty Ltd	Australia	Ordinary	100.0	100.0
Select Solutions Group Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Services (Transmission) Ltd	Australia	Ordinary	100.0	100.0
AusNet Transmission Group Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Finance Pty Ltd	Australia	Ordinary	100.0	100.0
Geomatic Holdings Pty Ltd	Australia	Ordinary	100.0	100.0
Geomatic Technologies Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Services Insurance Ltd	Guernsey	Ordinary	100.0	100.0
AusNet Services Finance Trust	Australia	Ordinary	100.0	100.0

Note E.2 **Parent entity information**

(A) STATEMENT OF FINANCIAL POSITION

	2017 $M	2016 $M
Current assets	225.9	150.9
Non-current assets	5,153.6	5,067.8
Total assets	**5,379.5**	**5,218.7**
Current liabilities	–	–
Non-current liabilities	26.1	10.5
Total liabilities	**26.1**	**10.5**
Contributed equity	5,153.2	5,057.3
Retained profits	200.2	150.9
Total equity	**5,353.4**	**5,208.2**

(B) STATEMENT OF COMPREHENSIVE INCOME

	2017 $M	2016 $M
Profit for the year	357.1	445.4
Total comprehensive income for the year	357.1	445.4

(C) CONTINGENT LIABILITIES

The Directors are not aware of any contingent liabilities of the parent entity as at 31 March 2017 (2016: $0).

Note E.3 **Related party transactions**

(A) MAJOR SHAREHOLDERS

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) Ltd (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. These entities are not considered related parties under the *Corporations Act 2001*.

(I) OPERATIONAL AGREEMENT WITH JEMENA

On 29 September 2016, we entered into an agreement with the Jemena Group on a number of operational arrangements. We provide metering services, technical services and vegetation management services to the electricity and gas networks owned and managed by Jemena. The agreement related to the services performed on Jemena's gas network expires 29 September 2017 whereas the agreement related to the services performed on Jemena's electricity network expires 31 December 2019.

To ensure continued capital investment and network growth, Zinfra was appointed a delivery partner on our capital portfolio. These agreements have a term for two years with an option to extend for one year.

(B) KEY MANAGEMENT PERSONNEL

	2017 $	2016 $
Short-term employee benefits	6,970,077	7,228,784
Post-employment benefits	395,441	419,744
Equity-based payments	2,195,997	2,007,639
Other long-term benefits	446,941	247,199
Termination benefits	564,217	–
	10,572,673	**9,903,366**

The Remuneration Report contained in the Directors' report contains details of the remuneration paid or payable to each member of the Groups' key management personnel for the year ended 31 March 2017.

(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 provide electricity distribution and electricity transmission 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 financial year:

	2017 $'000	2016 $'000
Sales of goods and services		
Regulated revenue (i)	9,157	10,484
Services revenue	22,346	28,604
Other revenue	–	79
Purchases of goods and services		
Other expenses	2,965	617
Property, plant and equipment	77,265	68,555
Dividends paid, net of DRP	**104,645**	**99,399**

i. Represents revenues from the provision of electricity distribution and electricity transmission 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:

	2017 $'000	2016 $'000
Current receivables (sale of goods and services)		
Singapore Power entities	38	57
Other related parties (i)	3,247	4,497
Current payables and other liabilities (purchase of goods)		
Singapore Power entities	–	28
Other related parties	21,546	21,605

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 and electricity transmission services which are regulated by the AER.

SECTION F OTHER DISCLOSURES

This section includes other information to assist in understanding the financial performance and position of the Group, or items required to be disclosed in order to comply with accounting standards and other pronouncements.

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:

	2017 $'000	2016 $'000
Audit and review services		
Audit and review of financial statements	1,620	1,811
Audit of regulatory returns (i)	506	656
Total remuneration for audit services	**2,126**	**2,467**
Other services		
Other assurance, taxation and advisory services	259	241
Total remuneration for other services	**259**	**241**
Total remuneration of auditors	**2,385**	**2,708**

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 two Equipsuper defined benefit superannuation plans that provide 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 terms and conditions of the two plans are consistent.

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

The defined benefit superannuation plans are 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.

	2017 $M	2016 $M
Total amount included in the statement of financial position in respect of the defined benefit plans is as follows:		
Present value of defined benefit obligations	(267.3)	(298.0)
Fair value of plan assets	299.5	286.7
Net asset/(liability) arising from defined benefit obligations	**32.2**	**(11.3)**
Amounts recognised in the income statement in respect of the defined benefit plans are as follows:		
Current service cost	7.1	8.8
Net interest cost on defined benefit obligation	0.3	0.9
Total	**7.4**	**9.7**
Remeasurement gains recognised during the year in OCI	**46.5**	**33.9**

Each year we engage an independent actuary to perform actuarial reviews of the AusNet Transmission Group Pty Ltd and AusNet Electricity Services Pty Ltd defined benefit funds.

Our net obligation in respect of the defined benefit superannuation funds 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 to the defined benefit plans during the next financial year at a consistent level to FY2017. 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 plans' assets equalling 105 per cent of the plans' liabilities within five years. The defined benefit superannuation plans expose us to additional actuarial, interest rate and market risk.

Note F.2 Defined benefit obligations (continued)

(A) MOVEMENT IN DEFINED BENEFIT OBLIGATION

	2017 $M	2016 $M
Movements in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	298.0	338.5
Current service cost	7.1	8.8
Interest cost	9.8	8.8
Contributions by plan participants	2.7	2.6
Actuarial gain	(22.5)	(43.7)
Benefits, taxes and premiums paid	(27.8)	(17.1)
Transfers in	–	0.1
Closing defined benefit obligations	**267.3**	**298.0**
Movements in the fair value of plan assets were as follows:		
Opening fair value of plan assets	286.7	298.9
Interest income	9.5	7.9
Actual return on fund assets less interest income	24.0	(9.8)
Contributions from the employer	4.4	4.1
Contributions by plan participants	2.7	2.6
Benefits, taxes and premiums paid	(27.8)	(17.1)
Transfers in	–	0.1
Closing fair value of plan assets	**299.5**	**286.7**

The actual return on plan assets was a gain of $33.5 million (2016: loss of $1.9 million).

(B) ANALYSIS OF PLAN ASSETS

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

	2017 %	2016 %
Investments quoted in active markets:		
Australian equities	29	28
International equities	19	22
Fixed interest securities	12	13
Unquoted investments:		
Property	9	10
Growth alternative	10	10
Defensive alternative	12	10
Cash	9	7
	100	**100**

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

(C) ACTUARIAL ASSUMPTIONS

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

	Defined benefit expense		Defined benefit obligation	
	2017 %	2016 %	2017 %	2016 %
Key assumptions				
Discount rate	3.5	2.7	4.1	3.5
Expected salary increase rate	3.8	4.5	3.8	3.8

As at 31 March 2017, the weighted average duration of the defined benefit obligation was 8 years (2016: 9 years).

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:

	Increase $M	Decrease $M
Defined benefit obligation		
Discount rate (0.5 per cent movement)	(12.4)	13.3
Expected salary increase rate (0.5 per cent movement)	10.0	(9.6)

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 CONTRIBUTION EXPENSE

During the year, we contributed $19.7 million of defined contribution benefit to employees (2016: $19.2 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 (LTIP) 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 Group has the following grants outstanding at 31 March 2017:

Plan	Period	Grant date	Vesting date	PRs granted	Value of PRs at grant date
LTIP 2017	1/4/16 – 31/3/19	1 April 2016	31 March 2019	3,542,013	$3,612,853
LTIP 2016	1/4/15 – 31/3/18	1 April 2015	31 March 2018	3,768,821	$3,768,821

The fair value of each performance right is estimated on the grant date using the Black-Scholes model. This model used the following inputs for each tranche of rights:

	LTIP	
	2017	2016
Share price at grant date	$1.56	$1.48
Exercise price	$0.0	$0.0
Expected volatility	20%	20%
Risk-free interest rate	1.61%	2.05%
Dividend yield	6.00%	6.00%
Expected life of performance rights	36 months	36 months

The expected volatility is based on the Group's historical volatility and is designed to be indicative of future trends, which may not reflect actual volatility.

Reconciliation of equity rights on issue:	FY17 Grant	FY16 Grant	FY17 Total	FY16 Total
Opening balance	–	3,725,213	3,725,213	–
Granted during the year	3,542,013	–	3,542,013	3,768,821
Forfeited during the year	(552,648)	(486,644)	(1,039,292)	(43,608)
Modified during the year (i)	(64,302)	(207,048)	(271,350)	–
Vested during the year	–	–	–	–
Closing balance	**2,925,063**	**3,031,521**	**5,956,584**	**3,725,213**

i. Following a restructure of the executive leadership team in July 2016, three executives received modified conditions in relation to certain performance rights on foot. This modification was made at the Board's discretion.

An expense of $1.773 million has been recognised for the year ended 31 March 2017 (2016: $1.241 million) in relation to 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 2017 (2016: $0).

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 the Group in the period of initial adoption. They were available for early adoption for the Group's annual reporting period beginning 1 April 2016, 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 1 January 2018, with early adoption permitted. The impact of this standard has yet to be quantified by the Group, however, there will be no impact on regulated revenue (85.8% of total revenue). In addition, most of the unregulated revenue of the Group is either fee for service or sales of goods, which are not impacted by AASB 15. AusNet Services has some revenue contracts that contain multiple deliverables that may require an acceleration or deferral of revenue from current practice, however, this is not expected to be material.
- 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 will be that the majority of operating lease contracts disclosed in Note C.5 (b) will be present valued and recognised as a "right of use" asset, with a corresponding liability also recognised. In addition, the majority of the $13.8 million operating lease expense will no longer be recognised and will be replaced with amortisation/interest expense.

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) DIVIDEND

Since the end of the financial year, the Directors have approved a final dividend for 2017 of $158.5 million (4.4 cents per share) plus a special dividend of $36.0 million (1.0 cents per share) to be paid on 27 June 2017. Both the final dividend and the special dividend will be unfranked.

(B) TRR FINAL DETERMINATION

On 28 April 2017, the Australian Energy Regulator (AER) published the final decision on AusNet Services 2017–22 Transmission Revenue Proposal. The final decision resulted in a 1.7 per cent increase in revenue from the draft decision. The revenue allowance for the five year period from 1 April 2017 is $2,742 million.

The AER has not accepted AusNet Services' proposed value of imputation credits (known as gamma) preferring a value which is consistent with the AER's position in appeals, which are currently before the Federal Court of Australia. AusNet Services will review its appeal rights in relation to gamma.

(C) OTHER MATTERS

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2017 up to the date of issue of this financial report that has significantly affected or may significantly affect:

a. the operations in financial years subsequent to 31 March 2017 of the Group;

b. the results of those operations; or

c. the state of affairs, in financial years subsequent to 31 March 2017, of the Group.

DIRECTORS' DECLARATION

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

a. the financial statements and notes set out on pages 65 to 117, and the remuneration disclosures that are contained in the Remuneration report set out on pages 40 to 59 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 2017 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.

Peter Mason
Chairman

Nino Ficca
Managing Director

Melbourne
15 May 2017

Independent Auditor's Report

To the shareholders of AusNet Services Ltd (the Company)

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of AusNet Services Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 March 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 March 2017;
- Consolidated statement of profit or loss, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year's end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Recognition of revenue;
- Valuation of non-current assets, including property, plant and equipment and intangible assets;
- Accounting for project related expenditure; and
- Valuation and accounting for derivatives.

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of revenue (AUD $1,881.5m)

Refer to Note B.1 Segment results and Note B.3 Working Capital of the Financial Report.

The key audit matter	How the matter was addressed in our audit
Revenue recognition is a key audit matter due to the nature of the regulatory framework and billing process for the distribution of electricity and gas, and transmission of electricity in Victoria, which adds complexity to our audit approach. In particular: • the application of regulator approved tariff rates, which are used to bill customers for the distribution of electricity and gas, and transmission of electricity in Victoria. The Group's regulatory price determinations promulgated by various regulatory bodies are routinely revised; and • the inherent complexity in the Group's customer billings processes to estimate energy consumed and to determine the relevant tariff rates.	Our procedures included: • involving our regulatory advisory specialists and considering the impact of relevant regulatory price determinations on the Group's revenue, including developments in respect of the Australian Energy Regulator's (AER) Final Electricity Distribution Price Review (EDPR) issued in May 2016, the Australian Competition Tribunal (ACT) Limited Merits Review, the Transmission Revenue Reset Final Decision issued in April 2017, and the Advanced Metering Infrastructure 2016 Transition Charges Final Decision issued in December 2016; • working with our Information Technology specialists and testing the key controls over the revenue process including the reconciliation between the metering systems and the billing system, and the validation of metering data during billing periods; • evaluating the appropriateness of the Group's accounting policies for revenue recognition against accounting standard requirements;

	• comparing tariff rates charged to customers to the regulator approved tariff rates for the time the services were provided; • performing sample testing of transmission revenues recorded checking relevant amounts to invoices and cash receipts; • analysing revenue against historical performance, regulatory price determinations, and energy consumption data in comparison to weather patterns.
Valuation of non-current assets, including property, plant and equipment (AUD $10,000.0m) and intangible assets (AUD $554.8m)	
Refer to Note C.1 Property, Plant and Equipment, C.2 Intangible Assets, and C.4 Impairment of non-current assets of the Financial Report.	
The key audit matter	**How the matter was addressed in our audit**

The valuation of non-current assets is a key audit matter due to the:
 	
• determination of Cash Generating Units ('CGU') being subject to judgement as it requires consideration of the impact of regulatory developments on the business model;
 	
• complex nature of the regulatory framework for determining revenue and expenditure applicable to each of the Group's regulated CGU's;
 	
• complexity in auditing the forward-looking assumptions applied to the Group's discounted cash flow models for each CGU given the significant assumptions involved. The main assumptions included those relating to terminal values, expected capital and operating expenditure, expected returns from future regulatory determinations, inflation, growth rates and discount rates; and
 	
• challenges associated with auditing the Group's long term forecast cash flow model having regard to emerging regulatory change, technology and
	Our procedures included:
	
	• involving our regulatory advisory specialists, and using our industry knowledge to consider the impact of the relevant regulatory developments on the Group's determination of CGUs, in particular the Australian Energy Market Commission's ('AEMC') Final Determination on Metering Contestability and the Victorian Government's deferral of adoption of metering competition in Victoria;
	
	• testing the key controls over the cash flow models, including review and approval of key assumptions and the FY18-22 Financial Plan, which form the basis of cash flow forecasts;
	
	• assessing the Group's cash flow model assumptions by:
	
	  ○ comparing regulated cash flow assumptions to regulatory determinations relevant to the forecast cash flow period;
	
	  ○ comparing unregulated cash flow assumptions to customer contracts and historical trends;

market changes, and accounting standard requirements.	○ agreeing the relevant cash flow forecasts to the FY18-22 Financial Plan; ○ involving our valuation specialists and assessing the reasonableness of the discount rates by considering comparable market information and evaluating the economic assumptions relating to cost of debt and cost of equity; and ○ for regulated assets, assessing the appropriateness of using a long term cash flow forecast against accounting standard requirements by considering industry practice and the long term nature of the Group's regulated asset base. • evaluating the Group's sensitivity analysis in respect of the key assumptions, including the identification of areas of estimation uncertainty and reasonably possible changes in key assumptions; • assessing the appropriateness of the related financial statement disclosures against accounting standard requirements; • comparing carrying values of CGUs to available market data, such as implied earnings and asset multiples of comparable entities.

Accounting for project related expenditure (AUD $789.6m total additions)

Refer to Note C.1 Property, plant and equipment of the Financial Report.

The key audit matter	How the matter was addressed in our audit
Project related expenditure is a key audit matter due to the: • significance of capital and operating expenditure, in respect of building and maintaining safe and reliable networks, to both the statement of financial position and income statement;	Our procedures included: • testing the key controls for the: ○ authorisation of new projects; ○ monitoring of actual project expenditure against approved budgeted expenditure;

• number of new and overall significant number of projects in progress including the Metering Program , terminal station upgrades and the Bushfire Mitigation Program; and • the complexity in auditing judgements made in respect of: ○ the classification between capitalised and operating expenditure; ○ whether capital projects represent future benefits to the Group; ○ whether indirect costs such as labour and overheads were allocated between capital and operating expenditure in accordance with accounting standards; and ○ the determination of the useful lives of capitalised assets.	○ allocation between capital and operating expenditure in accordance with accounting standards. • analysing the indirect cost (e.g. corporate overhead, labour and finance cost) allocation methodology by challenging the underlying assumptions applied in the Activity Based Costing survey, capitalised finance charge models, and comparing the allocation of indirect costs against historical trends. For a sample of projects, our procedures included: • assessing the nature of costs capitalised to identify whether they represent future benefits to the Group in accordance with accounting standard requirements; • consideration of individual asset impairments, the impact of asset retirements on depreciation expense and decommissioning provisions; • assessing the actual project spend to budgeted spend by comparing approved budgets to actual costs. This testing was conducted to assess: ○ whether additional costs represent future benefits to the Group capable of capitalisation; and ○ authorisation and allocation of overspend in accordance with Group policy. • evaluating the Group’s assessment of the useful life of the capitalised assets, for consistency with the Group’s accounting policies, and accounting standard requirements.

Valuation and accounting for derivatives (AUD $311.7m assets; AUD $313.4m liabilities)

Refer to Note D.3 Financial risk management of the Financial Report.

The key audit matter	How the matter was addressed in our audit
Valuation and accounting for derivatives is a key audit matter due to the: • size and complexity of the Group's derivative portfolios, in particular cross currency and interest rate swaps hedging foreign currency and Australian dollar denominated fixed and floating rate debt; • the Group undertaking capital management activities during the year impacting on the Group's derivative portfolios and creating new hedge relationships; and • inherent complexity and judgement in applying accounting principles in the valuation and disclosure of derivatives and related hedging activities. In assessing this key audit matter, we involved our Financial Instrument and Treasury specialists, who have industry specific experience and detailed knowledge of the complex accounting requirements.	With the assistance of our Financial Instrument and Treasury specialists, our procedures included: • evaluating the appropriateness of valuation methodologies and accounting for hedging activities against accounting standard requirements; • assessing and challenging the Group's market inputs and assumptions underlying the valuation of derivatives. We compared market inputs and assumptions to independently sourced market and credit data sets including spot foreign exchange rates, currency interest rate curves, currency basis spreads and credit pricing curves; • recalculating a sample of derivative valuations; • evaluating the adequacy of hedge designation documentation for a sample of new hedges in relation to to the Group's documented Treasury Risk Management policy and accounting requirements; • obtaining independent confirmations from counterparties with which the Group has borrowings or derivative financial instruments and agreeing these to accounting records; • evaluating the appropriateness of the classification and presentation of derivative financial instruments and related financial risk management disclosures against accounting standard requirements.

Other Information

Other Information is financial and non-financial information in AusNet Services Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the 2017 Highlights, Chairman's Message, Managing Director's Report, Delivering change for a bright future, Our future in a modern energy world, Operating and Financial Review, Directors' Report, Remuneration Report, and Shareholder Information. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Operating and Financial Review, Directors' Report, and Remuneration Report. The remaining Other Information is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of AusNet Services Ltd for the year ended 31 March 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in pages 40 to 59 of the Directors' report for the year ended 31 March 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Paul J McDonald

Paul J McDonald

Partner

Melbourne

15 May 2017

GLOSSARY OF TERMS

AASB	Australian Accounting Standards Board
ACN	Australian Company Number
ACCC	Australian Competition and Consumer Commission
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
APES	Accounting Professional & Ethical Standard
AER	Australian Energy Regulator
AGM	Annual General Meeting
AMI	Advanced Metering Infrastructure
ARMC	Audit and Risk Management Committee
ASX or Australian Securities Exchange	ASX Limited or the securities exchange which it operates
ATO	Australian Taxation Office
AUD	Australian dollar
AusNet Electricity Services	AusNet Electricity Services Pty Ltd (ABN 91 064 651 118)
AusNet Services	AusNet Services Limited (ABN 45 603 317 559)
AusNet Services (Distribution)	AusNet Services (Distribution) Ltd (ABN 37 108 788 245)
AusNet Services Group or the Group	AusNet Services and its subsidiaries
AusNet Services Stapled Group	AusNet Services (Distribution) Ltd (ABN 37 108 788 245), AusNet Services (Transmission) Ltd (ABN 48 116 124 362) and AusNet Services Finance Trust (ARSN 116 783 914) which, prior to the Corporate Restructure, were listed as a triple stapled security pursuant to, among other things, the terms of the Stapling Deed.
AusNet Services (Transmission)	AusNet Services (Transmission) Ltd (ABN 48 116 124 362)
AusNet Transmission Group	AusNet Transmission Group Pty Ltd (ABN 78 079 798 173)
CAGR	Compound Annual Growth Rate
CFV	Common or central Funding Vehicle
CGU	Cash-Generating Unit
CHF	Swiss franc
COAG	Council of Australian Governments
Corporate Restructure	The corporate restructure under which the former Stapled Entities became wholly owned by AusNet Services Limited and eligible securityholders received shares in AusNet Services Limited in the same as proportion of the stapled securities previously held.
Corporations Act	*Corporations Act 2001* (Cth) of Australia
(Cth)	Indicates federal legislation of the Commonwealth of Australia
CY	Calendar Year
DRP	Dividend Reinvestment Plan which provides eligible shareholders with a method of reinvesting all or part of their dividends in additional shares.
DUoS	Distribution Use of System charge
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EDPR	Electricity Distribution Price Review
ERP system	Enterprise Resource Planning system
EPS	Earnings Per Share
EUR	Euro
F-factor scheme	A regulatory instrument under the *National Electricity Act 2005* (Vic) which specifically provides Distribution Network Service Providers with an incentive to lower the number of fire starts on their networks in Victoria.
FAR	Fixed Annual Remuneration
FFO	Funds from Operations
FX	Foreign exchange
FY	Financial Year
GAAR	Gas Access Arrangement Review
GBP	Pound sterling
GSL	Guaranteed Service Level
GST	Goods and Services Tax
GWh	Gigawatt hour, a unit of energy equal to one billion watt hours
HKD	Hong Kong dollar
HSEQ	Health and Safety, Environment and Quality
ICR	Interest Cover Ratio
IFRS	International Financial Reporting Standards
IP	Intellectual Property
IT	Information Technology
Jemena	SGSP (Australia) Assets Pty Ltd ("SGSPAA") and its Subsidiaries trading as "Jemena" or "Zinfra Group" (as applicable)
JPY	Japanese yen
KMP	Key Management Personnel
KPI	Key Performance Indicator
LTI	Safety: Lost Time Injury Remuneration: Long Term Incentive
LTIP	Long Term Incentive Plan
Management Services Agreement	The agreement under which SPI Management Services Ltd formerly acted as the employing entity of the senior management of the AusNet Services Group.
MD	Managing Director
MTI	Medical Treatment Injury
Moody's	Moody's Investors Services, Inc.
NED	Non-executive Director
NGER	*National Greenhouse and Energy Reporting Act 2007* (Cth)
NOK	Norwegian kroner
NPAT	Net Profit After Tax
OCI	Other Comprehensive Income
PJ	Petajoule, a unit of energy equal to one quadrillion (10^{15}) joules
Power of Choice	The Australian Energy Market Commission's competitive framework designed to promote innovation and lead to investment in advanced meters that deliver services valued by consumers at a price they are willing to pay.

Glossary of terms (continued)

RAB	Regulated Asset Base. The RAB represents the value, as assessed by the AER, of past regulated network investments. This is the value on which the AusNet Services Group can expect to earn a return (return on capital), and the value that is returned to the AusNet Services Group over the economic life of the assets (as regulatory depreciation). For each regulatory period, the RAB is adjusted for inflation, capital expenditure, depreciation, customer contributions and disposals. The AusNet Services Group's regulated assets include ownership of the primary regulated Victorian electricity transmission network, together with an electricity distribution network located in eastern Victoria and a gas distribution network located in western Victoria. The calculation of the total RAB value is subject to some estimation as the AER ultimately determines the RAB of each network.
REFCL	Rapid Earth Fault Current Limiter
R&CAB	Regulated and Contracted Asset Base. Includes the RAB as well as: (i) contracted transmission assets that are currently unregulated but will become regulated at the next price review; (ii) contracted transmission assets whose revenues and returns are set by applying an approved negotiated price framework or competitively (including through tender or bi-lateral negotiations), rather than through price regulation, including, for example, the Victorian desalination contract.
ROIC	Return On Invested Capital
RTS	Richmond Terminal Station
RIFR	Recordable Injury Frequency Rate
ROE	Return On Equity
Same Business Test	As referred to in sections 165-13 and 165-210 of the *Income Tax Assessment Act 1997.*
Section 163AA	Section 163AA of the *Electricity Industry Act (1993)* (Vic)
Select Solutions	Part of the AusNet Services Group's unregulated business, which is a leading specialist provider of metering and asset intelligence services in the essential infrastructure sector throughout Australia.
SGD	Singapore dollar
SGX or SGX-ST	Singapore Exchange Securities Trading Limited or the securities exchange which it operates
Singapore Power Group	Singapore Power Limited and its Subsidiaries
SPI	Singapore Power International Pte Ltd
Standard & Poor's	Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc.
State Grid	State Grid Corporation of China
STI	Short Term Incentive
STPIS	Service Target Performance Incentive Scheme
Temasek	Temasek Holdings (Private) Ltd, Ultimate Parent Entity of Singapore Power
TRR	Transmission Revenue Reset
TSR	Total Shareholder Return
TUoS	Transmission Use of System
(Vic)	Indicates state legislation of the State of Victoria
UK	United Kingdom
USA	United States of America
USD	United States dollar
Victorian State Government	The government of the State of Victoria

SHAREHOLDER INFORMATION

The shareholder information set out below was compiled from AusNet Services' register of shareholders as at 19 May 2017.

Voting rights

Subject to any rights or restrictions attaching to our shares, on a show of hands each shareholder present at a meeting of shareholders in person or by proxy, attorney or representative has one vote and, on a poll, has one vote for each fully paid share held.

For the avoidance of doubt, any person named in the Central Depository (Pte) Limited of Singapore ("CDP") as a person on whose behalf CDP holds one or more shares ("CDP Account Holder") does not have any right to vote by virtue of their status as a CDP Account Holder.

Issued Capital

Class	Holders	Shares
Ordinary Shares	14,516	3,603,155,012

Distribution of shares

A distribution schedule of the number of holders of shares is set out below:

Range	Total holders	Shares	% of Issued Capital
1 – 1,000	1,579	895,293	0.02
1,001 – 5,000	4,297	12,331,999	0.34
5,001 – 10,000	2,793	21,256,526	0.59
10,001 – 100,000	5,571	151,122,217	4.19
100,001 and over	276	3,417,548,977	94.86
Total	**14,516**	**3,603,155,012**	**100.00**

The number of shareholders holding less than a marketable parcel of shares was 365, holding 15,732 shares (based on the closing market price on 19 May 2017).

There is no current on-market buy-back.

Shareholders

Rank	Name	No. of shares held	Percentage of issued shares
1.	Singapore Power International Pte Ltd	1,120,581,209	31.10
2.	State Grid International Australia Development Company Limited	717,027,848	19.90
3.	HSBC Custody Nominees (Australia) Limited	682,462,996	18.94
4.	Citicorp Nominees Pty Limited	253,793,013	7.04
5.	J P Morgan Nominees Australia Limited	227,864,382	6.32
6.	The Central Depository (Pte) Limited	123,451,759	3.43
7.	National Nominees Limited	47,002,000	1.30
8.	RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	34,870,160	0.97
9.	BNP Paribas Noms Pty Ltd <DRP>	24,588,342	0.68
10.	IOOF Investment Management Limited <IPS SUPER A/C>	19,864,202	0.55
11.	BNP Paribas Nominees Pty Ltd <AGENCY LENDING DRP A/C>	19,526,898	0.54
12.	BNP Paribas Nominees Pty Ltd <JERSEY ABERDEEN AIF LTD DRP>	11,292,508	0.31
13.	RBC Investor Services Australia Nominees Pty Limited <MBA A/C>	10,233,769	0.28
14.	Citicorp Nominees Pty Limited <COLONIAL FIRST STATE INV A/C>	9,655,304	0.27
15.	HSBC Custody Nominees (Australia) Limited-GSCO ECA	9,436,747	0.26
16.	Woodross Nominees Pty Ltd	8,584,210	0.24
17.	HSBC Custody Nominees (Australia) Limited – A/C 2	5,614,278	0.16
18.	Powerwrap Limited <SCHEME – IML TRADES A/C>	4,021,429	0.11
19.	IOOF Investment Management Limited <IPS IDPS A/C>	3,408,849	0.09
20.	Asia Union Investments Pty Ltd	3,000,000	0.08
Total: Top 20 holders of fully paid ordinary shares		**3,336,279,903**	**92.57**
Total Remaining Holders Balance		**266,875,109**	**7.43**

Substantial holders

The names of AusNet Services' substantial holders and the number of shares in which each has a relevant interest, as disclosed in substantial holding notices received by AusNet Services as at 19 May 2017, are listed below:

	No. of shares held	Voting Power
Singapore Power International Pte Ltd and its associates	1,120,581,209	31.10%
State Grid International Development Limited and its associates	717,027,848	19.90%
Legg Mason, Inc and its associates	223,365,494	6.19%

Employee Incentive Scheme on-market purchases

Pursuant to AusNet Services' General Employee Exempt Share Plan 529,731 shares were purchased on-market during the reporting period at an average price per share of $1.56.

COMPANY INFORMATION

Financial calendar

20 July 2017
2017 Annual General Meeting

30 September 2017
2017/18 Financial Half Year end

15 November 2017
2017/18 Half Year Results announced

31 March 2018
2017/18 Financial Year end

Annual General Meeting

The Annual General Meeting of AusNet Services will be held at 10:00am Thursday 20 July 2017. The location of the Annual General Meeting is:

Melbourne Convention & Exhibition Centre
Meeting Room 213
1 Convention Centre Place,
South Wharf, Victoria, Australia

Enquiries and information

AusNet Services' register of shares is maintained by

Computershare Investor Services Pty Limited ("Computershare"). For enquiries about AusNet Services shares, a transfer of shares or dividends, contact:

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford, Victoria 3067

GPO Box 2957
Melbourne, Victoria 3001 Australia

Telephone: 1300 850 505 (within Australia)
+61 3 9415 4000 (outside Australia)

Facsimile: +61 3 9473 2500

For enquiries about AusNet Services, contact:

AusNet Services Investor Relations
Telephone: +61 3 9695 6000
Facsimile: +61 3 9695 6666
Email: investor.enquiries@ausnetservices.com.au

Or write to:

Investor Relations
AusNet Services
Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006 Australia

STOCK EXCHANGE LISTING

The shares are listed under the name "AusNet Services" and code "AST" on the Australian Stock Exchange, and on the Singapore Exchange Limited under the code "AUSNET SERVICES". The shares participate in the Clearing House Electronic Subregister System ("CHESS").

TAX FILE NUMBER ("TFN") INFORMATION

While it is not compulsory for shareholders to provide a TFN, AusNet Services is obliged to deduct tax from dividends to holders resident in Australia who have not supplied such information. If you have not already supplied your TFN, you may wish to do so by writing to Computershare.

CHANGE OF ADDRESS OR NAME

A shareholder should notify Computershare immediately, in writing, if there is any change in his or her registered address or name.

AusNet Services

AusNet Services Ltd (ABN 45 603 317 559)

REGISTERED OFFICE

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COMPANY SECRETARY

Ms Claire Hamilton

AUDITOR

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