AusNet Pty Ltd
ACN 603 317 559

Financial Report

For the period from 1 April 2022 to 31 December 2022

AusNet Pty Ltd

Contents **Page**

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

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

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

The financial report was authorised for issue by the Directors on 28 April 2023.

Directors' Report

Introduction

The Directors of AusNet Pty Ltd present their report on the general purpose financial report of the consolidated entity for the period 1 April 2022 to 31 December 2022.

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

Our Board of Directors

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

Tony Narvaez – Chief Executive Officer

Mark Ellul – Chief Financial Officer

Steven Neave – EGM Network Management & Digital (appointed on 16 February 2022)

Change in Financial Year

AusNet Pty Ltd (formerly AusNet Services Ltd), was acquired by Australian Energy Holdings No 4 Pty Ltd (AEH4) on 16 February 2022 by a consortium of investors including Brookfield (Brookfield consortium). Following the acquisition, the AusNet Pty Ltd Group changed its financial year end from 31 March to 31 December to align with the new ultimate Australian parent entity, Australian Energy Holdings No 1 Pty Ltd (AEH1) and Brookfield, a major shareholder.

As a result of this change, these financial statements are for the nine-month period from 1 April 2022 to 31 December 2022. Prior year comparatives are for the financial statements for the year ended 31 March 2022.

Operating & Financial Review

The period to 31 December 2022 represents the Group's first full financial period since being acquired by the Brookfield Consortium. This period includes the impact of several items driven by the acquisition:

- The Group joined a new tax consolidated group with AEH1 as the head entity. This impacted the Group via the 'push-down' of the revised tax base amounts, which has had a significant impact on deferred tax balances.
- The finalisation of the tax return for the previous tax consolidated group, with several items still under review by the ATO.
- An increase to dividend payments from the Group.
- An increase in gearing reflected in higher recorded borrowings and interest.

In addition to the above acquisition-related items, the following key financial impacts occurred during the period:

- Finalisation and commencement of settlement of a historical employee under-payment matter, following comprehensive management review and consultation with the Fair Work Ombudsman Australia. (Refer to Note B.3 in the financial statements)
- Completion of an enterprise-wide operating model review to embed efficient operations and a sustainable cost base moving forward (Refer to Note B.3 in the financial statements)
- Successful completion of final Transmission Revenue Review (TRR) with all expenditure approved
- Draft GAAR submitted with increased allowances to previous years
- Continued progress on flagship unregulated infrastructure projects
- Response to several extreme weather events and timely restoration of supply to our customers, in co-operation with our delivery partners
- Continued progress on key strategic projects including IT application Cloud Migration and the Asset Risk Management initiative.

In addition, during the period the AER released its Draft Decision for the Gas Access Arrangement Review (GAAR) for 2023-2028 in December 2022. Refer to below for further information.

Review of Financial Results

This discussion and analysis is provided to assist readers in understanding the general purpose financial report. In addition to revenue and profit, we use Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and EBITDA after lease income (EBITDAaL) to measure our performance, which are non-IFRS measures. (EBITDA is presented in the Consolidated Income Statement and EBITDAaL can be derived from adding EBITDA and lease interest income in Note D.4 of the financial statements.) These measures are referred to below in our analysis. The results below are for the period from 1 April 2022 to 31 December 2022 for the Group, with comparatives shown for the year ended 31 March 2022. Commentary has been provided on a nine month period to 31 December 2022 vs. nine month period to 31 December 2021 comparative basis where applicable.

	December 2022 (9 months)	March 2022 (12 months)
Revenue ($M)	**1,554.5**	1,953.4
EBITDA ($M)	**944.8**	1,093.0
NPAT ($M)	**1,767.9**	217.2

The increase in net profit after tax is largely driven by the income tax benefit recognised of $1,472.5 million. The AusNet Pty Ltd Group joined a new tax consolidated group following the acquisition on 16 February 2022. The tax consolidation event has resulted in the re-measurement of the tax base of assets and liabilities contributing to the recognition of net deferred tax assets of $317.7 million, a change from net deferred tax liabilities of $1,007.6 million recognised at 31 March 2022, driving the majority of the income tax benefit recognised.

Strong revenue growth contributed to revenue and EBITDA figures comparable to FY2022, despite the shorter financial period. This was largely driven by the electricity distribution segment, which on a 9 month vs. 9 month basis saw strong revenue growth. In addition, operating costs were lower due to several non-recurring items in the prior period including outage penalties for the severe weather events in June and October 2021.

Further details regarding revenue and operating expense performance are contained in each business segment commentary below.

Electricity distribution business

	December 2022 (9 months)	March 2022 (12 months)
Revenue ($M)	**780.4**	926.6
EBITDA ($M)	**495.5**	497.1
Capital expenditure ($M)	**309.7**	447.2

The electricity distribution segment showed strong revenue growth through a combination of the regulated price path, and revenue cap outperformance on volumes.

In addition, there was strong growth in customer contributions revenue driven by continued network growth. Operating costs decreased due to non-recurring items in the prior year, primarily due to decrease in service level payments, with the prior period including outage payments for the severe weather events in June and October 2021.

Capital expenditure in 2022 was driven by replacement spend, customer connections and continued spend on the Rapid Earth Fault Current Limiter (REFCL) tranche 3 works. On a 9 month comparative basis, capital expenditure decreased due largely to non-recurring items in the previous period including the Lilydale depot purchase, emergency response expenditure for the extreme weather events noted above and the near-completion of the Metering Compliance project.

Directors' Report

Gas distribution business

	December 2022 (9 months)	March 2022 (12 months)
Revenue ($M)	**199.5**	237.6
EBITDA ($M)	**141.9**	165.7
Capital expenditure ($M)	**77.4**	113.0

Results for the gas segment were largely comparable on a 9 month basis, with an increase in revenues due to customer contributions, higher gas volumes driven by weather conditions and the sale of gas meter inventory to Downer (partially offset in cost of sales).

Operating costs were well managed in the period. This translated into EBITDA growth for the gas segment.

Capital expenditure was largely consistent for the period, showing a decrease due to lower customer and metering works (reflecting the lead time between customer capital spend and revenue recognition).

Electricity transmission business

	December 2022 (9 months)	March 2022 (12 months)
Revenue ($M)	**443.5**	606.9
EBITDA ($M)	**242.9**	333.8
Capital expenditure ($M)	**93.0**	120.6

Results for the transmission segment were largely comparable on a 9 month basis, with an increase in revenues due to increase in easement tax pass-through, partially offset by regulatory price path (lower revenue with the period April to December 2022 being the start of the new Transmission Revenue Reset (TRR) period.

Operating costs were well managed during the year with savings achieved across consultancy, labour and maintenance works. This is partially offset by the higher easement tax noted above.

Capital expenditure was impacted by several large station works including East Rowville, Springvale, and Templestowe Terminal Station rebuild projects.

Development & Future Networks business

	December 2022 (9 months)	March 2022 (12 months)
Revenue ($M)	**138.4**	192.5
EBITDA ($M)	**64.5**	96.4
Lease interest income ($M)	**19.2**	25.8
EBITDA after lease income (EBITDAaL) ($M)	**83.7**	122.2
Capital expenditure ($M)	**166.2**	138.4

On a 9 month basis, revenues declined due to several prescribed excluded transmission projects rolling into the Transmission Regulated Asset Base (RAB) at the commencement of the new regulatory period from 1 April 2022. These revenues are ow recorded under the Electricity Transmission segment. Somewhat offsetting this impact has been new revenues on several renewable connection projects as well as CPI escalation on existing projects.

The EBITDAaL performance reflects a consistent cost base, with workforce growth associated with new revenue partially offset by lower corporate cost allocations.

On a 9 month basis, capital expenditure grew due to spend on several major projects including Western Renewables link.

Financial position

Total equity of the Group was $3,340.5 million as at 31 December 2022.

The Group's current liabilities exceed its current assets by $224.8 million primarily due to current payables of $345.9 million. The financial report has been prepared 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 December 2022 we have available a total of $802.5 million of undrawn but committed bank debt facilities and overdraft facility, and $16.5 million of cash and cash equivalents.

Capital management

We manage our capital structure to maximise long-term returns to shareholders, as well as providing the flexibility to fund our growth and investment opportunities. An appropriate capital structure is also maintained to ensure an efficient cost of capital is available.

Our common or central funding vehicle (CFV) operates through AusNet Services Holdings Pty Ltd, a subsidiary of AusNet Pty Ltd. 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.

Environmental regulation and climate change

We were subject to both Federal and State Government environmental legislation during the period, including compliance with our obligations under the *Environment Protection Act 2017 (Vic)*, as amended by the *Environment Protection Act Amendment 2018*, which came into effect, 1 July 2021. This new Act reforms the legislative framework for the protection of human health and the environment from pollution and waste and introduces proactive duties, including, among other obligations, a General Environmental Duty (GED), a duty to manage contaminated land and a duty to notify the Environmental Protection Authority (EPA) of contamination that meets or exceeds certain notifiable thresholds. AusNet prepared for the changes through a detailed Readiness Action Plan. Since 1 July 2021, focus has shifted to embedding the changes, ensuring our continued legislative compliance and delivery against environmental continuous improvement activities.

The most significant areas of environmental legislation applying to AusNet 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 period 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 met these thresholds and have lodged our current year's NGER reporting with the Clean Energy Regulator for the period from 1 July 2021 to 30 June 2022.

Regulatory update

The AER released its draft decision for the Gas Access Arrangement Review (GAAR) for 2023-2028 in December 2022. This included consideration of the Victorian Government's gas roadmap and its impact on the regulated gas network. Compared to AusNet's draft proposal, the decision included:

- Overall lower revenue of $1,205.2 million compared to $1,260.7 million
- Higher operating expenses of $335.7 million compared to $306.4 million
- Lower regulatory depreciation of $217.7 million compared to $385.0 million
- Higher inflation assumptions, and
- Lower cash tax allowance, due to the tax loss position of the new tax consolidated group.

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 period under review.

Indemnification of insurance of directors and officers

The constitution provides that the Company may indemnify each current and former director, alternate director or executive officer (as defined in the constitution), and such other current and former officers of the Company or of a related body corporate as the Board in each case determines (each an 'Officer'), on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs and expenses (as defined in the constitution) incurred by the person as an officer of the Company or of a related body corporate.

The constitution also provides that the Company may, to the extent permitted by law, purchase and maintain insurance, or pay or agree to pay a premium for insurance, for Officers against any liability (as defined in the constitution) incurred as an officer of the Company or related body corporate, as the Board considers appropriate.

The Company may enter into a deed with any Officer to give effect to the rights conferred by the constitution as described previously or the exercise of discretion under the constitution, on such terms and conditions as the Board thinks fit, as long as they are not inconsistent with the constitution.

The Company has not executed protection deeds in favour of any of Officers. However, Australian Energy Holdings No 1 Pty Ltd has executed deeds in favour of Directors, Alternate Directors, Company Secretaries and executives of the Company and Australian based subsidiaries (who held office as of, or have come to hold office since, 17 February 2022) 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 officers of the Company and Australian based subsidiaries, only).

The Company has not purchased, nor agreed to pay a premium for, insurance for the liabilities of Officers incurred in that capacity. However, during the period, an Affiliate (as defined in the constitution) paid a premium to insure Directors and Company Secretaries of the Company and Australian-based subsidiaries, as well as executives of the Group for relevant liabilities.

No insurance premiums are paid in respect of insurance cover provided to the auditor of the Company, Ernst & Young. The auditor is not indemnified and no insurance cover is provided to the auditor.

Matters subsequent to the end of the financial period

(a) Distribution

On 23 March 2023, the Board of AusNet Pty Ltd approved a dividend of $3.9 million to Australian Energy Holdings No 4 Pty Ltd.

(b) Other matters

There has been no other matter or circumstance that has arisen since 31 December 2022 up to the date of issue of this financial report that has significantly affected or may significantly affect:

(a) the operations in financial period subsequent to 31 December 2022 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in financial period subsequent to 31 December 2022, of the Group.

Rounding of amounts

AusNet 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.

Tony Narvaez
Director

Melbourne
28 April 2023

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Auditor's independence declaration to the directors of AusNet Pty Ltd

As auditor of the consolidated financial report of AusNet Pty Ltd for the financial year ended 31 December 2022, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

This declaration is in respect of AusNet Pty Ltd and the entities it controlled during the financial year.

Ernst & Young

Kester Brown
Partner
28 April 2023

Consolidated income statement

For the period from 1 April 2022 to 31 December 2022

	Notes	9 months to 31 December 2022 $M	12 months to 31 March 2022 $M Restated
Revenue*	B.1, B.2	1,554.5	1,953.4
Use of system and associated charges		(95.8)	(114.1)
Easement and land tax		(148.0)	(180.2)
Employee benefits expenses		(119.9)	(187.1)
External maintenance and contractors' services		(109.0)	(150.8)
Materials		(7.7)	(11.8)
Information technology and communication costs		(47.4)	(59.4)
Administrative expenses		(34.7)	(40.1)
Service level payments		(5.1)	(37.7)
Disposal of property, plant and equipment		(6.7)	(13.5)
Reversal of impairment / (impairment) of non-financial assets	C.1, C.2	3.0	(3.0)
Scheme of arrangement transaction costs		-	(32.4)
Other expenses		(38.4)	(30.3)
Total expenses excluding depreciation, amortisation, interest and tax		**(609.7)**	**(860.4)**
Earnings before interest, tax, depreciation and amortisation		**944.8**	**1,093.0**
Depreciation and amortisation	C.1, C.2	(371.9)	(483.5)
Profit from operating activities		**572.9**	**609.5**
Finance income*	D.4	19.6	28.2
Finance costs	D.4	(297.1)	(328.7)
Net finance costs		**(277.5)**	**(300.5)**
Profit before income tax		**295.4**	**309.0**
Income tax benefit / (expense)	B.4	1,472.5	(91.8)
Profit for the year		**1,767.9**	**217.2**

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

**Refer to Section A - (a) Basis of preparation for information on accounting policy in relation to revenue and interest income recognised in relation to the desalination licence asset*

Consolidated statement of comprehensive income

For the period from 1 April 2022 to 31 December 2022

	Notes	9 months to 31 December 2022 $M	12 months to 31 March 2022 $M
Profit for the year		1,767.9	217.2
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	F.2	(11.9)	16.3
Income tax on movement in defined benefit fund	B.4	3.6	(4.9)
		(8.3)	**11.4**
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		**450.5**	**729.3**
Income tax on movement in hedge reserve	B.4	**(135.0)**	**(218.9)**
	D.3	**315.5**	**510.4**
Other comprehensive income for the year, net of tax		**307.2**	**521.8**
Total comprehensive income for the year		**2,075.1**	**739.0**

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

Consolidated statement of financial position

As at 31 December 2022

	Notes	31 December 2022 $M	31 March 2022 $M
ASSETS			**Restated**
Current assets			
Cash and cash equivalents		16.5	272.8
Receivables*	B.3	184.3	180.9
Finance lease receivables	C.4	4.4	1.9
Inventories	B.3	47.4	41.0
Derivative financial instruments*	D.3	106.3	18.8
Other assets	B.3	48.0	25.7
Total current assets		**406.9**	**541.1**
Non-current assets			
Inventories	B.3	24.4	22.7
Property, plant and equipment	C.1	11,876.8	11,603.7
Intangible assets	C.2	553.2	560.4
Other financial assets*	C.3	1.5	1.7
Finance lease receivables	C.4	317.9	321.7
Derivative financial instruments*	D.3	825.0	403.9
Defined benefit asset	F.2	65.0	76.7
Deferred tax assets	B.4	317.7	-
Other assets*	B.3	166.2	171.3
Total non-current assets		**14,147.7**	**13,162.1**
Total assets		**14,554.6**	**13,703.2**
LIABILITIES			
Current liabilities			
Payables and other liabilities	B.3	345.9	309.9
Lease liabilities	D.5	7.5	6.1
Provisions	B.3	90.0	108.0
Borrowings	D.2	-	338.3
Tax payable	B.4	-	6.0
Derivative financial instruments*	D.3	188.3	113.6
Total current liabilities		**631.7**	**881.9**
Non-current liabilities			
Contract liabilities	B.3	213.9	216.8
Lease liabilities	D.5	57.0	68.3
Provisions	B.3	53.4	49.8
Borrowings	D.2	9,802.1	9,183.2
Derivative financial instruments*	D.3	456.0	426.6
Deferred tax liabilities	B.4	-	1,007.6
Total non-current liabilities		**10,582.4**	**10,952.3**
Total liabilities		**11,214.1**	**11,834.2**
Net assets		**3,340.5**	**1,869.0**
EQUITY			
Contributed equity	D.6	5,228.1	5,557.1
Reserves		(2,917.9)	(3,233.4)
Retained profits		2,125.4	640.4
Other equity		(1,095.1)	(1,095.1)
Total equity		**3,340.5**	**1,869.0**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.
**Refer to Section A - (a) Basis of preparation for information on accounting policy in relation to classification of derivatives and desalination licence asset*

Consolidated statement of changes in equity
For the period from 1 April 2022 to 31 December 2022

	Notes	Contributed equity	Restructure reserve (i)	Hedge reserve (ii)	Asset revaluation reserve (iii)	Other equity component (v)	Retained profits	Total equity
		$M	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**
31 December 2022								
Balance as at 1 April 2022		5,557.1	(3,501.9)	215.6	52.9	(1,095.1)	640.4	1,869.0
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	1,767.9	1,767.9
Other comprehensive income		-	-	315.5	-	-	(8.3)	307.2
Total comprehensive income for the year		**-**	**-**	**315.5**	**-**		**1,759.6**	**2,075.1**
Transactions with owners, recorded directly in equity								
Dividends paid (vi)	D.7	-	-	-	-	-	(274.6)	(274.6)
Return of capital (vi)	D.6	(329.0)	-	-	-	-	-	(329.0)
Total transactions with owners		**(329.0)**	**-**	**-**	**-**	**-**	**(274.6)**	**(603.6)**
Balance as at 31 December 2022		**5,228.1**	**(3,501.9)**	**531.1**	**52.9**	**(1,095.1)**	**2,125.4**	**3,340.5**

Consolidated statement of changes in equity

For the period from 1 April 2022 to 31 December 2022

	Notes	Contributed equity $M	Restructure reserve (i) $M	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
31 March 2022									
Balance as at 1 April 2021		5,487.8	(1,501.9)	(294.8)	51.4	0.9	(1,095.1)	786.6	3,434.9
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	217.2	217.2
Other comprehensive income		-	-	510.4	-	-	-	11.4	521.8
Total comprehensive income/(loss) for the year		**-**	**-**	**510.4**		**-**	**-**	**228.6**	**739.0**
Transactions with owners, recorded directly in equity									
Dividends paid	D.7	-	-	-	-	-	-	(362.5)	(362.5)
New shares issued	D.6	15.1	-	-	-	-	-	-	15.1
Dividend Reinvestment Plan (net of transaction costs)	D.6	49.4	-	-	-	-	-	-	49.4
Novation of bridging loan		-	(2,000.0)	-	-	-	-	-	(2,000.0)
Fair value adjustments		-	-	-	1.5	-	-	-	1.5
Share based payment reserve		6.8	-	-	-	(0.9)	-	(12.3)	(6.4)
Shares purchased as part of employee share plans		(2.0)	-	-	-	-	-	-	(2.0)
Total transactions with owners		**69.3**	**(2,000.0)**	**-**	**1.5**	**(0.9)**	**-**	**(374.8)**	**(2,304.9)**
Balance as at 31 March 2022		**5,557.1**	**(3,501.9)**	**215.6**	**52.9**	**-**	**(1,095.1)**	**640.4**	**1,869.0**

Consolidated statement of changes in equity

For the period from 1 April 2022 to 31 December 2022

(i) Under the 2015 corporate restructure, former AusNet Services Ltd shares were issued to shareholders in return for their stapled securities. The former 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 ($1,501.9 million) between the contributed equity of AusNet Pty Ltd and the pre-restructure contributed equity of the Stapled Group at the date of the transaction was recognised as a restructure reserve.

As a part of the financing for the acquisition of AusNet Pty Ltd (formerly AusNet Services Ltd), Australian Energy Holdings No 4 Pty Ltd (the new immediate holding entity of AusNet Pty Ltd) entered into a $2.0 billion two year bridging loan facility. On 9 March 2022, AusNet Services Holdings Pty Ltd assumed all liabilities of this facility. As a result, there was no cash proceeds received for the novated facility and an entry to restructure reserves of $2.0 billion was recognised as an equity transaction with owners.

(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. During the year, $328.9 million of unrealised gains relating to hedged items (net of tax) was recognised in other comprehensive income, driving the movement in the hedge reserve (31 March 2022: $510.4 million).

(iii) The balance of $52.9 million includes $51.4 million representing 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.

The remaining $1.5 million in the asset revaluation reserve represents a fair value adjustment relating to recognition of an equity investment measured at fair value through other comprehensive income, arising from the Group's remaining 20% interest in Geospatial.ai Pty Ltd, sold on 15 February 2022.

(iv) The share based payment reserve represented the tax-effected fair value of the performance rights granted under the long term incentive plan as well as the difference between the vested cost and expense recognised. All outstanding rights granted were vested on 16 February 2022. Following the vesting, the remaining balance in share-based payment reserves was transferred to retained profits.

(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.

(vi) In the current half year period, dividends of $274.6 million were paid and a return of capital of $329.0 million made from AusNet Pty Ltd to Australian Energy Holdings No 4 Pty Ltd. In prior year, dividends of $362.5 million were paid to shareholders of former AusNet Services Ltd.

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

Consolidated statement of cash flows

For the period from 1 April 2022 to 31 December 2022

	Notes	9 months to 31 December 2022 $M	12 months to 31 March 2022 $M Restated*
Cash flows from operating activities			
Profit for the year		1,767.9	217.2
Add back interest, tax, depreciation and amortisation		(823.1)	875.8
Earnings before interest, tax, depreciation and amortisation		**944.8**	**1,093.0**
Non-cash gifted assets revenue		(41.3)	(48.5)
Other non-cash items		3.7	16.5
Working capital movement		(31.5)	31.4
Net Income tax refund received	B.4	6.9	32.8
Net interest paid		(286.5)	(304.2)
Net cash inflow from operating activities		**596.1**	**821.0**
Cash flows from investing activities			
Payments for property, plant and equipment (i)		(590.1)	(771.0)
Proceeds from sale of property, plant and equipment		2.7	1.1
Receipts from finance lease receivables	C.4	1.9	1.9
Receipts from financial assets (ii)		-	719.8
Net cash outflow from investing activities		**(585.5)**	**(48.2)**
Cash flows from financing activities			
Payments for employee equity plan shares		-	(1.9)
Payments for lease liabilities		(5.8)	(6.1)
Return of capital	D.6	(329.0)	-
Dividends paid (iii)	D.7	(272.1)	(313.1)
Proceeds from borrowings (iv)	D.2	2,175.0	500.0
Repayment of borrowings (v)	D.2	(1,835.0)	(1,506.8)
Net cash outflow from financing activities		**(266.9)**	**(1,327.9)**
Net decrease in cash held		**(256.3)**	**(555.1)**
Cash and cash equivalents at the beginning of the year		272.8	827.9
Cash and cash equivalents at the end of the year		**16.5**	**272.8**

(i) Net finance costs include a credit of $13.5 million (31 March 2022: $18.1 million) for capitalised finance charges which is included in payments for property, plant and equipment.

(ii) There were no short-term deposit with a maturity date more than 3 months that were redeemed as cash during the period (31 March 2022: $719.8 million).

(iii) Dividends paid excludes withholding tax.

(iv) Proceeds from borrowings include $2.1 billion drawn for new syndicated facilities entered into during the period ended 31 December 2022. In prior year, a $2.0 billion bridging loan facility used for financing the acquisition of the AusNet group by Australian Energy Holdings No 4 Pty Ltd was assumed on 9 March 2022 with no cash proceeds. $500.0 million of the bridging loan was refinanced on 30 March 2022 and repaid on the same day.

(v) Repayment of borrowings includes $1.5 billion repayment of the bridging loan facility and a $335.0 million repayment of domestic medium-term notes.

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

**Refer to Section A - (a) Basis of preparation for information on accounting policy in relation to classification of desalination licence asset*

Notes to the consolidated financial statements
For the period from 1 April 2022 to 31 December 2022

Contents

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

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 Pty Ltd (formerly AusNet Services Ltd) and its subsidiaries. The financial statements were approved by the Board of Directors on 28 April 2022.

The ultimate Australian parent of the Company is Australian Energy Holdings No 1 Pty Ltd, which is part of a consolidated group operating as AusNet. On 16 February 2022, all shares in AusNet Pty Ltd (formerly known as AusNet Services Ltd) were acquired by Australian Energy Holdings No 4 Pty Ltd. Australian Energy Holdings No 4 Pty Ltd is wholly owned (indirectly) by Australian Energy Holdings No 1 Pty Ltd, which became the Company's new immediate parent in Australia. Following the acquisition, the ordinary equity securities of AusNet Pty Ltd were delisted from the ASX.

To align with the financial year-end of its ultimate Australian parent, the Company's financial year-end was changed from 31 March to 31 December. Accordingly, financial statements have been prepared for the nine-month period from 1 April 2022 to 31 December 2022 and the prior period amounts for the year ended 31 March 2022 presented are not entirely comparable. Adjustments have been made to certain items in the comparative period financial statements and notes to align with presentation and classification in the current period financial statements.

During the current period, the Group presented the current and non-current classification of derivative assets and liabilities based on settlement dates of cash flows of the derivatives. Previously current and non-current classification derivatives was determined based on the maturity date of the instrument. The Group has restated prior year comparatives in the Statement of Financial Position and classification in Note D.3 to align with current period.

During the current period, the Group re-assessed the accounting treatment of the desalination licence receivable and identified an error in accounting treatment. We concluded that the upfront payment made as operator to the grantor in a service concession arrangement in the scope of *AASB Interpretation 12 Service Concession Arrangements* is accounted for as consideration paid to a customer under *AASB 15 Revenue from Contracts with Customers*. As a result, the Group has updated our accounting policy and reclassified the financial asset balance to other assets (AASB 15 assets) in the current period. Prior year comparatives in the Statement of Financial Position, Statement of Profit and Loss, and Statement of Cash Flows have been restated to align with the current period. There is no material difference in the carrying value of the financial asset compared to the other asset as of 31 March 2022. (Refer to Note B.3 – Working Capital for further information).

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 $224.8 million at 31 December 2022. The Group is, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 December 2022, the Group has available a total of $802.5 million of undrawn but committed bank debt facilities and overdraft, and $16.5 million of cash;
- under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value;
- with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Instrument 2016/191 issued by the Australian Securities and Investments Commission.
- except for changes made to classification of derivatives and treatment of the desalination licence receivable as noted above, the accounting policies applied by the Group in this consolidated financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2022.

(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 listed below and disclosed throughout the financial statements:

- B.2 – Variable consideration and satisfaction of performance obligations
- B.3 – Accrued revenue estimates
- B.3 – Measurement of environmental provision
- B.4 – Determination of deferred tax assets
- B.4 – Timing of and availability of tax deductions
- C.1 – Useful lives of property, plant and equipment
- C.5 – Assessments of recoverable amount
- D.3 – Fair value of derivative financial instruments
- D.5 – Lease terms and incremental borrowing rate
- F.2 – Valuation of defined benefit assets and obligations

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

Section B Operating our business

This section highlights the performance of the Group for the period, including results by operating segment, details of income tax expense and related balances. In addition, this section provides information on the working capital used to generate the Group's operating activities 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 Development & Future Networks business.

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. Segment revenues, expenses and results include transactions between the segments that are eliminated on consolidation.

The Cost Allocation Methodologies as approved by the Australian Energy Regulator (AER) are used as the basis for allocating expenses to the relevant segment.

(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.

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

The performance obligation is the provision of the access to the network and as such use of system revenue is recognised over the contract period which is assessed as the regulatory reset period. The transaction price is assessed as the determined recoverable revenue over that period. Variable consideration relating to volumes is constrained to the period in which it occurs, and volume over or under recoveries under the revenue cap are not considered to comprise variable consideration in accordance with AASB 138 *Intangible Assets.*

Excluded ancillary and alternative control services including public lighting, cross boundary charges and new connection charges are rendered to customers for a fixed rate with revenue recognised at a point in time when the services are rendered.

Customer contributions

Customer contributions include the receipt of cash from a customer for the construction of assets, or the contribution of completed assets to us.

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 it is operating as intended. The performance obligation is at a point in time being the time at which the customer is connected to the network.

For some customer projects, the performance obligation will be linked to an ongoing service contract, and hence the performance obligation will be satisfied over time, being the contract term.

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 the Group 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.

Section B Operating our business

Note B.1 Segment results (continued)

(a) Description of reportable segments (continued)

(ii) Gas distribution

The gas distribution network carries natural gas to commercial and residential end users, including metering.

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

The performance obligation is the provision of the access to the network and as such use of system revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period. Variable consideration, being the volume fluctuations or true ups for unaccounted for gas are constrained to the period to which they apply. Customer contributions in the gas distribution segment are accounted for in the same way as the electricity distribution segment.

(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. The electricity transmission segment does not purchase or sell electricity. We charge the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network.

Prescribed excluded services revenue is generated from assets that will be rolled into the regulated asset base (RAB) in the next regulatory reset period and included in regulated transmission revenue from that date. For the period that this revenue is under separate contracts, and related to customer-initiated works it is included in the Development & Future Networks segment.

The performance obligation is the provision of the access to the network and as such revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period.

Revenue in relation to the desalination licence contracts is recognised over time as performance obligations are satisfied, using an output method. The performance obligation is the operation and maintenance of the transmission line, such that the line is available for use to supply electricity to the desalination plant in Wonthaggi, Victoria. Refer to Note B.2 for further information on the contract.

Refer to Note B.3 for further detail.

(iv) Development & Future Networks

The Development & Future Networks segment provides contracted infrastructure asset and energy services, as well as a range of asset and utility services to support the management of electricity, gas, and water networks. Many of these services are provided under the Mondo brand.

The contracted infrastructure business builds, owns and operates a portfolio of assets that fall outside the regulated asset base. Development & Future Networks makes investments through directly negotiated agreements, and typically receives annuity payments over the contract period in exchange for infrastructure and operational services. Dedicated customer connections are treated as finance lease receivables, with proceeds received from these assets split between revenue, lease interest income and principal repayments.

The Development & Future Networks segment also provides various asset and utility services to customers. Revenues from these services are recognised at a point in time as the services are rendered.

This segment also includes customer-initiated excluded prescribed and negotiated transmission services. Excluded negotiated services revenue is generated from assets that are excluded from the RAB but are controlled under a regulated negotiating framework. Contracts are based on fixed fees over the life of the asset and performance obligations are satisfied over time.

Notes to the consolidated financial statements
For the period from 1 April 2022 to 31 December 2022

Section B Operating our business

Note B.1 Segment results (continued)

(b) Reportable segment financial information

9 months to 31 December 2022	Electricity distribution $M	Gas distribution $M	Electricity transmission $M	Development & Future Networks $M	Inter-segment eliminations $M	Consolidated $M
Regulated revenue	708.9	182.7	442.8	0.4	(6.8)	1,328.0
Excluded prescribed transmission revenue	-	-	-	2.8	-	2.8
Excluded negotiated transmission revenue	-	-	-	15.9	-	15.9
Unregulated infrastructure revenue	-	-	-	56.8	-	56.8
Customer contributions	66.3	11.0	-	1.3	-	78.6
Service revenue	-	-	-	48.5	-	48.5
Other revenue	5.2	5.8	0.7	12.7	(0.5)	23.9
Total segment revenue	**780.4**	**199.5**	**443.5**	**138.4**	**(7.3)**	**1,554.5**
Segment operating expense	(286.2)	(58.1)	(201.8)	(73.9)	7.3	(612.7)
Reversal of impairment	1.3	0.5	1.2	-	-	3.0
Segment result – EBITDA (i)	**495.5**	**141.9**	**242.9**	**64.5**	**-**	**944.8**
Lease interest income	-	-	-	19.2	-	19.2
EBITDAaL (ii)	**495.5**	**141.9**	**242.9**	**83.7**	**-**	**964.0**
Depreciation and amortisation	(211.1)	(47.6)	(97.4)	(15.8)	-	(371.9)
Capital expenditure	309.7	77.4	93.0	166.2	-	646.3
12 months to 31 March 2022						
Regulated revenue	856.5	217.2	579.6	-	(9.6)	1,643.7
Excluded prescribed transmission revenue	-	-	26.1	20.8	(0.1)	46.8
Excluded negotiated transmission revenue	-	-	-	21.5	-	21.5
Unregulated infrastructure revenue*	-	-	-	67.8	-	67.8
Customer contributions	64.7	18.1	-	2.4	-	85.2
Service revenue	-	-	-	69.9	-	69.9
Other revenue	5.4	2.3	1.2	10.1	(0.5)	18.5
Total segment revenue	**926.6**	**237.6**	**606.9**	**192.5**	**(10.2)**	**1,953.4**
Segment operating expense	(428.2)	(71.4)	(271.9)	(96.1)	10.2	(857.4)
Impairment	(1.3)	(0.5)	(1.2)	-	-	(3.0)
Segment result – EBITDA (i)	**497.1**	**165.7**	**333.8**	**96.4**	**-**	**1,093.0**
Lease interest income*	-	-	-	25.8	-	25.8
EBITDAaL (ii)	**497.1**	**165.7**	**333.8**	**122.2**	**-**	**1,118.8**
Depreciation and amortisation	(268.4)	(61.3)	(115.0)	(38.8)	-	(483.5)
Capital expenditure	447.2	113.0	120.6	138.4	-	819.2

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

(ii) EBITDA after lease interest income.

* Refer to Section A - (a) Basis of preparation for information on accounting policy in relation to classification desalination licence asset

Note B.2 Revenue from contracts with customers

Disaggregated revenue

In the following table, revenue is disaggregated by revenue type and timing of recognition. The table also includes a reconciliation of the disaggregated revenue with AusNet' reportable segments by including income items not in the scope of AASB 15 *Revenue from Contracts with Customers*.

	Electricity distribution	Gas distribution	Electricity transmission	Development & Future Networks	Inter-segment eliminations	Total
9 months to 31 December 2022	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**
Timing of recognition						
At a point in time	87.3	21.9	0.1	39.2	(0.5)	148.0
Over time	691.5	177.6	442.9	97.9	(6.8)	1,403.1
Revenue from contracts with customers	**778.8**	**199.5**	**443.0**	**137.1**	**(7.3)**	**1,551.1**
Other income not in scope of AASB 15						
Operating lease income	0.1	-	0.5	-	-	0.6
Income from government grants (v)	1.5	-	-	1.3	-	2.8
Total revenue	**780.4**	**199.5**	**443.5**	**138.4**	**(7.3)**	**1,554.5**
12 months to 31 March 2022 (Restated)						
Timing of recognition						
At a point in time	90.0	27.1	0.7	50.8	(0.5)	168.1
Over time	835.0	210.5	605.7	139.9	(9.7)	1,781.4
Revenue from contracts with customers	**925.0**	**237.6**	**606.4**	**190.7**	**(10.2)**	**1,949.5**
Other income not in scope of AASB 15						
Operating lease income	0.2	-	0.5	-	-	0.7
Income from government grants (v)	1.4	-	-	1.8	-	3.2
Total revenue	**926.6**	**237.6**	**606.9**	**192.5**	**(10.2)**	**1,953.4**

(v) *Government grant income*

The electricity distribution segment comprises grants under the Powerline Replacement Program whereby grants are received to fund bushfire safety capital expenditure, with income recognised over the life of the constructed assets. Government grant income in the Development & Future Networks segment comprises assets received in relation to the Ballarat Energy Storage System, with income recognised over the life of the asset.

Section B Operating our business

Note B.2 Revenue from contracts with customers (continued)

Key estimates and judgements – Variable consideration and satisfaction of performance obligations

Variable consideration in relation to volume variances and CPI escalation are constrained to the period to which they occur.

For performance obligations satisfied over time, we typically use the output method, with the passage of time used as the measure of satisfaction of performance obligations. This is because our performance obligations satisfied over time are based on a fixed fee for the use of or access to an asset. In these scenarios, volumes or other activity do not impact the amount or timing of revenue recognition. The period over which the performance obligations are satisfied can be the contract term (in the case of unregulated revenues) or the period to the next regulatory reset period (in the case of regulated revenues).

Section B Operating our business

Note B.3 Working capital

Working capital are 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 estimates

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	Assets	Liabilities	Liabilities
	31 December 2022 $M	31 March 2022 $M	31 December 2022 $M	31 March 2022 $M
Accounts receivable/payable	28.1	24.7	(46.0)	(16.6)
Accrued revenue – other/accrued expenses	7.9	-	(134.7)	(167.5)
Contract assets (i)	148.0	156.1	-	-
Contract liabilities (ii)	-	-	(104.7)	(69.2)
Deferred revenue – government grants	-	-	(3.6)	(3.2)
Other receivables/payables	0.2	-	(12.9)	(15.8)
Related party receivables/payables	-	-	(0.4)	-
Interest receivables/payables	0.1	0.1	(43.6)	(37.6)
Total current receivables/payables and other liabilities	**184.3**	**180.9**	**(345.9)**	**(309.9)**
Current other asset	48.0	25.7	-	-
Non-current other assets – Desalination licence (iii)	147.8	154.4	-	-
Non-current other assets	18.4	16.9	-	-
Current inventory	47.4	41.0	-	-
Non-current inventory	24.4	22.7	-	-
Non-current contract liabilities (ii)	-	-	(121.5)	(112.5)
Non-current deferred revenue – government grants	-	-	(92.4)	(104.3)
Current provisions	-	-	(90.0)	(108.0)
Non-current provisions	-	-	(53.4)	(49.8)
Working capital	**470.3**	**441.6**	**(703.2)**	**(684.5)**

(i) Contract assets primarily relate to unbilled regulated distribution and transmission revenue from AEMO market participants (generators, distributors and retailers). Invoices are raised on 30-day billing cycles for distribution and transmission and on 60-day cycles for gas.

(ii) Contract liabilities primarily relate to funds received in advance for customer contributions, telecommunications services, unregulated infrastructure services and software maintenance fees. Revenue is recognised over the construction period and contract term. Revenue recognised in the current period that was included in the contract liability balance at 1 April 2022 was $31.6 million (31 March 2022: $30.0 million). Of the total contract liabilities of $226.2 million we expect that approximately 46 per cent (31 March 2022: 38 per cent) of these performance obligations will be satisfied in the next twelve months, with the remainder satisfied over the longer term. Long-term obligations primarily comprise unregulated and negotiated transmission contracts (primarily 30 years).

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

Section B Operating our business

Note B.3 Working capital (continued)

(iii) In December 2012, the Group 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 was accounted for applying *AASB Interpretation 12 Service Concession Arrangement*s and had previously been recognised as a receivable under *AASB 9 Financial Instruments*. The monthly revenue payment received from the operator is fixed, with an annual adjustment for inflation.

Any amounts not received from the desalination plant 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 agreements, the unamortised portion of the upfront licence payment is refunded along with the reimbursement of necessary costs incurred in order to affect the termination.

Correction of an error

In the current period, the Group has re-assessed the accounting treatment of the upfront payment made as operator to the grantor in a service concession arrangement in the scope of *AASB Interpretation 12 Service Concession Arrangements*. As the upfront payment does not give the Group a right to a separate good or service or a separate right of use that meets the definition of a lease, the upfront payment is accounted for as consideration paid to a customer under *AASB 15 Revenue from Contracts with Customers*. The cash flows received from the desalination plant operator are recognised as revenue over time as the performance obligations are satisfied, using an output method. The AASB 15 contract asset is reduced over the contract term using an output method and is recognised as a reduction of revenue.

As a result of the re-assessment, the receivable has been reclassified from Other financial assets to a AASB 15 asset, with prior year comparatives restated. There was no material change in the carrying value of the asset, only the classification, resulting in no change to equity. Accordingly, we have not presented a third statement of financial position to show the impact of this change as of 1 April 2021.

Revenue was understated by $10.0 million and interest income overstated by $10.0 million in the prior period, and has also been restated.

In the current period, the AASB 15 asset was reduced by $6.6 million and recognised as a reduction of revenue, and $23.7 million has been recognised as revenue (31 March 2022: $8.8 million and $30.7 million respectively).

Section B Operating our business

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 expected credit losses.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. For accounts receivable, contract assets and lease assets, the Group applies the simplified approach for expected credit losses, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Accounts receivable are non-interest bearing and the average credit period is 15 business days (10 days for regulated retailers, 30 days for customer contracts).

The following table provides information about the exposure to credit risk for trade receivables grouped by different revenue segment:

	Gross	Allowance	Gross	Allowance
	31 December 2022	31 December 2022	31 March 2022	31 March 2022
	$M	$M	$M	$M
Electricity Distribution	7.5	-	2.7	-
Gas Distribution	1.6	-	4.9	-
Electricity Transmission	8.7	-	-	-
Development & Future Networks	10.7	(0.4)	18.9	(1.8)
Total	**28.5**	**(0.4)**	**26.5**	**(1.8)**

Expected credit losses of trade receivables recognised amounted to $0.2 million during the period ended 31 December 2022 (31 March 2022: $0.5 million).

Receivables relating to regulated revenue streams (which account for approximately 91 per cent of revenues) are owed by retailers in the industry. There are strict regulatory requirements regarding who can obtain a retail licence and the Essential Service Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. The Australian Energy Market Operator (AEMO) also has high prudential requirements for retailers who participate in the market. Retailers must provide guarantees as requested by AEMO to minimise the risk of exposure by other participants to any defaults.

Growth & Future Networks' receivables primarily relate to large telecommunications, electricity and gas retail businesses and other utilities such as water and transport companies. Allowances are required to cover potential contractual disputes over services provided as well as delinquent customers.

(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.

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

Section B Operating our business

Note B.3 Working capital (continued)

(c) Provisions

	31 December 2022 $M	31 March 2022 $M
Current provisions		
Employee benefits (i) (ii)	65.7	90.2
Sundry provisions (iii)	4.9	6.4
Redundancy provision	3.9	5.8
Make good provision	2.7	4.1
Environmental provision	12.8	1.5
Total current provisions	**90.0**	**108.0**
Non-current provisions		
Employee benefits (i)	5.9	6.2
Environmental provision	30.0	31.9
Make good provision	17.5	11.7
Total non-current provisions	**53.4**	**49.8**
Total provisions	**143.4**	**157.8**

(i) Employee benefits provisions represent provisions for annual and long service leave for our employees as well as provisions for employee bonuses, other accrued entitlements, and employee wages remediation. 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.

Employee benefits provision also includes an amount provided for in relation to the Executive Long-Term Incentive Plan. Refer to Note F.3.

(ii) Included within the employee benefits provision is the employee wages remediation provision of $3.0 million, raised for costs associated with underpayment of wages to certain employees of the subsidiaries of the AusNet Pty Ltd Group, pre-acquisition, under the current Enterprise Agreement. The provision recognised represents the difference in salaries paid to past and current employees and payments they would be entitled to under the terms of the Enterprise Agreement, plus interest and gratuity payments agreed with parties involved. In the current period, the review process was completed, and an agreement was reached with Fair Work Ombudsman and the Unions. The Company has made payments of $8.0 million to past and current employees in the period, with the provision balance of $3.0 million representing remaining payments to be made.

(iii) Sundry provisions include uninsured losses and provisions for cross boundary charges.

Key estimates and judgements – Measurement of environmental provision

Provisions include an environmental provision of $42.8 million, which represents an estimate of costs to remediate soil and water contamination on gas sites which were previously used as coal production facilities. The provision is based on preliminary cost estimates and timing of remediation, considering current legal and regulatory requirements, the estimated extent of the contamination, the nature of the site and surrounding areas, and the technologies and methods available. Management is exploring a number of strategies for future land use options for the three sites, with the estimation of the provision at period end being based on the current preferred option. The extent of remediation activities and associated costs may differ significantly depending on which option is ultimately chosen, and on other factors impacting the extent of ultimate remediation effort and underlying cost that are not known at balance date. As a result there is a risk that in the event of full remediation of all three sites, the cost may significantly exceed the provision at 31 December 2022. Site investigations are ongoing and there has been no significant updates to estimated costs in the current period.

Notes to the consolidated financial statements
For the period from 1 April 2022 to 31 December 2022

Section B Operating our business

Note B.4 Taxation

Following the acquisition of the AusNet Pty Ltd Group on 16 February 2022 by the consortium of investors (including Brookfield), AusNet Services Pty Ltd joined a tax consolidated group headed by Australian Energy Holdings No 1 Pty Ltd and is subject to a new tax funding arrangement. Australian Energy Holdings No 1 Pty Ltd will file its first tax return for the tax consolidated group for the period ending 31 December 2022.

Key estimates and judgements – Determination of deferred tax assets

The Group joining the new tax consolidated group headed by Australian Energy Holdings No 1 Pty Ltd resulted in a reset and increase in the tax base of depreciable assets for the AusNet Pty Ltd Group, which has created an estimated deductible temporary difference of $3.8 billion. The increase in the tax base of depreciable assets represents an estimate, as the tax consolidation calculations are subject to change upon finalisation of the tax consolidation calculations for the submission of Australian Energy Holdings No 1 Pty Limited's first tax return.

Recognition of an associated Deferred Tax Asset for this deductible temporary difference was assessed under the requirements of AASB 112 *Income Taxes*, based on the forecasted taxable income of the AusNet Pty Ltd Group, and an amount of $317.7 million was recognised. Management judgment has been applied to determine the amount of Deferred Tax Assets that can be recognised based on forecast taxable income. A level of uncertainty is associated with the estimation of forecast future taxable income. The full deferred tax asset relating to the step-up of the tax bases was not recognised at 31 December 2022, as it was assessed as not being probable of utilisation at the date of the financial report. If the Group was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by $596.2 million.

The Deferred Tax Asset has been recognised against income tax expense, representing the uplift in future tax depreciation. This amount is subject to re-assessment in future periods based on management's forecasted taxable income.

Key estimates and judgements – Timing and availability of tax deductions

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in relation to the application of tax legislation as it applies to the Company. Judgement is required in determining the timing of deductibility of expenditure, which impacts the amount of income tax payable and 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.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

At present there are several tax positions of the tax consolidated group that are being reviewed by the ATO. Matters relating to the former AusNet Pty Ltd tax consolidated group include but are not limited to an objection lodged by AusNet Services Group in relation to certain tax consolidation and capital allowances positions arising from the corporate restructure completed in June 2015. In relation to the tax consolidation element of the 2015 corporate restructure objection, the potential uplift in tax bases has not been recognised in the financial statements of AusNet.

The matters being considered by the ATO are at various stages and include items that could have both a positive or negative impact on the currently recognised tax positions.

Section B Operating our business

Note B.4 Taxation (continued)

(a) Effective tax rate reconciliation

	9 months to 31 December 2022	12 months to 31 March 2022
	$M	$M
Profit before income tax	295.4	309.0
Tax at the Australian tax rate of 30.0% (2021: 30.0%)	88.6	92.7
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:		
Prior year under provisions	-	0.2
Impact of amended assessments (i)	-	(6.9)
Tax risk provision (ii)	-	6.6
Non-assessable gain on sale of Geospatial business	-	(1.8)
Non-deductible impairment (Note C.1, C.2)	(0.8)	1.0
Impact of consolidation event (iii)	(1,560.3)	-
Income tax (benefit)/ expense	**(1,472.5)**	**91.8**
Consists of:		
Current tax	(15.9)	16.5
Prior year under/(over) provision – current tax	-	(0.3)
Deferred tax	(1,456.6)	75.4
Prior year (over)/under provision – deferred tax	-	0.2
Income tax expense	**(1,472.5)**	**91.8**

(i) During prior year, amended assessments for FY2016 to FY2019 were lodged with the ATO, with a number of changes to the timing of deductions for property, plant and equipment. Part of these changes relate to the period prior to the 2015 tax consolidation event and as such, they increase the reset tax base amount under the consolidation event. A $6.9 million credit to tax expense has been recognised as a result of this higher reset tax base amount and is based on the amended assessments.

(ii) As noted above, the acquisition on 16 February 2022 resulted in the forming of a new tax consolidated group. The formation of this group resolved the uncertainty with respect to the tax risk provision for the capital allowances from the 2015 corporate restructure. As a result, a $6.6 million income tax expense was recognised for the year ended 31 March 2022, representing the increase of the provision recognised within deferred tax liabilities from its probability weighted balance to the full balance.

(iii) $1,560.3 million of income tax benefit is recognised in relation to the re-measurement of the tax base of assets and liabilities as a result of the tax consolidation event. This amount is net of $596.2 million of deferred tax assets not recognised.

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.

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

Section B Operating our business

Note B.4 Taxation (continued)

(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 2022	Impact of tax consoli-dation event	Impact of amended tax assess-ments	Prior year (under)-/overs	(Charged)/ credited to income statement	Charged/ (credited) directly in equity	31 December 2022
	$M	$M	$M	$M	$M	$M	$M
31 December 2022							
Employee benefits	29.0	-	-	-	(8.4)	-	20.6
Other accruals and provisions	99.2	-	-	-	17.8	-	117.0
Derivative financial instruments and fair value adjustments on borrowings	(96.9)	96.9	-	-	(0.1)	(135.0)	(135.1)
Defined benefit fund	(23.0)	23.0	-	-	-	3.6	3.6
Intangibles	(26.7)	(79.7)	-	-	-	-	(106.4)
Other financial assets	(39.9)	-	-	-	(2.7)	-	(42.6)
Property, plant and equipment	(953.1)	2,116.3	-	-	(107.5)	-	1,055.7
Right-of-use assets and lease liabilities		-	-	-	1.1	-	1.1
Post acquisition tax losses	3.8	-	-	-	(3.8)	-	-
Net deferred tax assets/ (liabilities)	**(1,007.6)**	**2,156.6**	**-**	**-**	**(103.6)**	**(131.4)**	**913.9**
Less: DTA not recognised	-	(596.2)	-	-	-	-	**(596.2)**
Net deferred tax assets recognised	**(1,007.6)**	**1,560.3**	**-**	**-**	**(103.6)**	**(131.4)**	**317.7**

Note B.4 Taxation (continued)

(c) Deferred tax (continued)

	1 April 2021	Impact of tax consoli-dation event	Impact of amended tax assess-ments	Prior year (under)-/overs	(Charged)/ credited to income statement	Charged/ (credited) directly in equity	31 March 2022
	$M	$M	$M	$M	$M	$M	$M
31 March 2022							
Employee benefits	25.5	-	-	-	3.5	-	29.0
Other accruals and provisions	100.8	-	-	(3.4)	2.5	(0.7)	99.2
Derivative financial instruments and fair value adjustments on borrowings	118.0	-	-	0.7	3.3	(218.9)	(96.9)
Defined benefit fund	(18.5)	-	-	-	0.4	(4.9)	(23.0)
Intangibles	(26.7)	-	-	-	-	-	(26.7)
Other financial assets	(36.1)	-	-	-	(3.8)	-	(39.9)
Property, plant and equipment	(870.5)	-	(3.3)	5.8	(85.1)	-	(953.1)
Post acquisition tax losses	-	-	-	-	3.8	-	3.8
Net deferred tax liabilities	**(707.5)**	**-**	**(3.3)**	**3.1**	**(75.4)**	**(224.5)**	**(1,007.6)**

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them is 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

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.

Notes to the consolidated financial statements
For the period from 1 April 2022 to 31 December 2022

Section B Operating our business

Note B.4 Taxation (continued)

(c) Deferred tax (continued)

(i) Tax consolidation (continued)

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

(d) Reconciliation of tax payable/(receivable)

	31 December 2022 $M	31 March 2022 $M
Balance at 1 April	6.0	(43.1)
Finalisation of prior year tax return	(12.9)	-
Refunds received (i)	6.9	59.8
Tax instalments paid	-	(26.8)
De-recognition of receivable	-	6.8
Tax (benefit) / expense	-	9.3
Balance	**-**	**6.0**
Current	-	6.0
Non-current	-	-

(i) During the period, the AusNet Pty Ltd tax consolidated group received refunds of $6.9 million from the ATO (31 March 2022: $59.8 million).

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 lives of property, plant and equipment

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, including but not limited to asset condition and obsolescence, location of supply and demand and estimated transformation in the energy market, including the changing source of generation and the Gas Substitution Roadmap currently being developed by the Victorian Government (refer to note C.4). Any reassessment for useful lives in a particular year will affect the depreciation expense.

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 property, 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 property, 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 regulated easements. Easements for unregulated transmission contracts are depreciated over the life of the contract. 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.

Included within this note are leases where the Group is a lessee, which are disclosed as right-of-use assets. The Group leases various offices, land and buildings that have lease terms that are typically for fixed periods, but certain lease arrangements have extension options. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The right-of-use assets (measured at cost comprising the amount of the initial measurement of lease liability and any other initial direct costs) are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis (refer to Note D.4).

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Section C Investing in our business

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

	Freehold land	Buildings	Easements	Transmission network	Electricity distribution network	Gas distribution network	Other plant and equipment	Right- of-use asset (ii)	Capital work in progress	Total
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Useful life (years)	Indefinite	40-99	30-Indefinite	15-70	5-70	15-80	3-12	1-47	n/a	
31 December 2022										
Carrying amount as at 1 April 2022	273.6	520.3	1,225.4	2,454.3	4,706.9	1,724.7	134.4	59.2	504.9	11,603.7
Lessor transfers	-	-	-	-	-	-	-	-	(1.4)	(1.4)
Additions	-	-	-	-	-	-	-	-	593.2	593.2
Transfers	(0.5)	13.8	-	87.9	210.5	72.6	16.0	-	(400.3)	-
Reversal of impairment (i)	-	-	-	-	-	-	-	3.0	-	3.0
Disposals	-	(0.1)	-	(2.1)	(3.5)	(2.8)	(1.0)	-	-	(9.5)
Depreciation expense	-	(10.2)	(0.1)	(78.5)	(157.6)	(40.9)	(22.7)	(2.2)	-	(312.2)
Carrying amount as at 31 December 2022	**273.1**	**523.8**	**1,225.3**	**2,461.6**	**4,756.3**	**1,753.6**	**126.7**	**60.0**	**696.4**	**11,876.8**
Cost	273.1	672.5	1,225.3	3,645.8	6,989.5	2,417.2	730.3	87.0	696.4	**16,737.1**
Accumulated depreciation	-	(148.7)	-	(1,184.2)	(2,233.2)	(663.6)	(603.6)	(27.0)	-	(4,860.3)
Carrying amount as at 31 December 2022	**273.1**	**523.8**	**1,225.3**	**2,461.6**	**4,756.3**	**1,753.6**	**126.7**	**60.0**	**696.4**	**11,876.8**

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

Section C Investing in our business

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

	Freehold land	Buildings	Easements	Transmission network	Electricity distribution network	Gas distribution network	Other plant and equipment	Right- of-use asset	Capital work in progress	Total
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Useful life (years)	Indefinite	40-99	30-Indefinite	15-70	5-70	15-80	3-12	1-47	n/a	
31 March 2022										
Carrying amount as at 1 April 2021	252.4	497.8	1,225.5	2,372.9	4,579.1	1,683.6	146.8	82.0	548.4	11,388.5
Lease modifications	-	-	-	-	-	-	-	(10.8)	-	(10.8)
Lessor transfers	-	-	-	-	-	-	-	-	(35.0)	(35.0)
Additions	-	-	-	-	-	-	-	-	703.6	703.6
Transfers	21.2	36.4		188.2	339.4	96.2	26.9	-	(708.3)	-
Disposals	-	(0.3)	-	(4.1)	(6.0)	(3.5)	(0.9)	-	-	(14.8)
Depreciation expense	-	(13.6)	(0.1)	(102.7)	(205.6)	(51.6)	(38.4)	(9.0)	-	(421.0)
Impairment (i)	-	-	-	-	-	-	-	(3.0)	-	(3.0)
Reclass from intangibles (iii)	-	-	-	-	-	-	-	-	(3.8)	(3.8)
Carrying amount as at 31 March 2022	**273.6**	**520.3**	**1,225.4**	**2,454.3**	**4,706.9**	**1,724.7**	**134.4**	**59.2**	**504.9**	**11,603.7**
Cost	273.6	659.1	1,225.4	3,573.8	6,808.8	2,352.1	736.0	86.2	504.9	**16,219.9**
Accumulated depreciation	-	(138.8)	-	(1,119.5)	(2,101.9)	(627.4)	(601.6)	(27.0)	-	(4,616.2)
Carrying amount as at 31 March 2022	**273.6**	**520.3**	**1,225.4**	**2,454.3**	**4,706.9**	**1,724.7**	**134.4**	**59.2**	**504.9**	**11,603.7**

(i) During the year, a $3.0 million impairment reversal was recognised in relation to impairment taken in the prior period relating to a leased office space that the Group ceased to use as a result of our office transformation and refurbishment project. The Group started to use the space in the current period, resulting in the reversal of the impairment.

(ii) In the current year, depreciation expense for right-of-use assets includes a credit adjustment of $5.2 million made to correct for historical depreciation expense.

(iii) In prior period, an impairment of $3.8 million in relation to the Geospatial business recognised historically was reclassified from software to capital works in progress (refer to Note C.2).

Note C.2 Intangible assets

	Distribution licences (i)	**Goodwill** (ii)	**Software** (iii)	**Total**
	$M	**$M**	**$M**	**$M**
Useful life (years)	Indefinite	Indefinite	3-10	
31 December 2022				
Carrying amount as at 1 April 2022	354.5	12.0	193.9	560.4
Additions	-	-	53.1	53.1
Disposals	-	-	(0.6)	(0.6)
Amortisation expense	-	-	(59.7)	(59.7)
Carrying amount as at 31 December 2022	**354.5**	**12.0**	**186.7**	**553.2**
Cost	354.5	12.0	812.4	1,178.9
Accumulated impairment	-	-	(3.1)	(3.1)
Accumulated amortisation	-	-	(622.6)	(622.6)
Carrying amount as at 31 December 2022	**354.5**	**12.0**	**186.7**	**553.2**
31 March 2022				
Carrying amount as at 1 April 2021	354.5	12.0	137.0	503.5
Additions	-	-	115.6	115.6
Impairment reversed and reclassified to capital works in progress (iv)	-	-	3.8	3.8
Amortisation expense	-	-	(62.5)	(62.5)
Carrying amount as at 31 March 2022	**354.5**	**12.0**	**193.9**	**560.4**
Cost	354.5	12.0	784.8	1,151.3
Accumulated impairment	-	-	(3.1)	(3.1)
Accumulated amortisation	-	-	(587.8)	(587.8)
Carrying amount as at 31 March 2022	**354.5**	**12.0**	**193.9**	**560.4**

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

The distribution licences are considered to have an indefinite life for the following reasons:
- the licences have been issued in perpetuity provided we comply with certain licence requirements;
- we monitor our performance against those licence requirements and ensure that they are met; and
- we intend to, and are able to continue to, maintain the networks for the foreseeable future

Note C.2 Intangible assets (continued)

(ii) Goodwill 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. There were no assets impaired in the current period. In prior period, the impairment of $6.9 million of software previously recognised was partially reclassified to capital works in progress in the current year to reflect the final apportionment of the impairment.

(iii) 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.

(iv) In prior period, $3.8 million of the $6.9 million impairment recognised in the previous year (FY21) was reclassified from software to capital works in progress. The impairment taken was in relation to the Geospatial business. (Refer to Note C.1).

Section C Investing in our business

Note C.3 Other financial assets

	31 December 2022 $M	31 March 2022 $M
Investment in equity instrument	1.5	1.5
Cash held by employee share trust	-	0.2
Balance at 31 December 2022	**1.5**	**1.7**

Investment in equity instrument

The balance represents the Group's investment in Geospatial.AI Pty Ltd. The Group assessed that it does not have significant influence over the business and elected to account for the remaining 20% interest as a financial asset measured at fair value through other comprehensive income.

Note C.4 Finance lease receivables

The Group has determined that its dedicated unregulated customer connection assets meet the definition of a finance lease, resulting in de-recognition of property, plant and equipment and the recognition of a financial asset. The financial asset is initially measured at the present value of remaining revenue receipts, discounted at the interest rate implicit in the lease. In order to calculate the interest rate implicit in the lease, the Group has determined that the construction costs of the asset are equivalent to its fair value.

During the period, the Group recognised interest income on lease receivable of $19.2 million (31 March 2022: $25.8 million).

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	31 December 2022 $M	31 March 2022 $M
Less than 1 year	28.3	28.1
1 to 2 years	28.5	28.3
2 to 3 years	28.6	28.6
3 to 4 years	28.7	28.6
4 to 5 years	29.0	28.8
More than 5 years	575.0	546.8
Total undiscounted lease receivable	**718.1**	**689.2**
Unearned finance income	(395.8)	(365.6)
Net investment in the lease	**322.3**	**323.6**
Lessor receivable – current	4.4	1.9
Lessor receivable – non-current	317.9	321.7
Total finance lease receivable	**322.3**	**323.6**

Note C.5 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 – Assessment of recoverable amount

Key estimates and judgements have been applied in the discount rate, terminal regulated asset base (RAB) multiples, and terminal values used in the measurement of recoverable amount. These assumptions have been determined with reference to historical information, current performance and expected changes and take into account external information such as input costs, supply and demand. Such estimates may change as new information becomes available. The recoverable amount is sensitive to the discount rate and other inputs and assumptions, particularly in the Gas Distribution CGU, and could impact results of impairment testing in the future should there be movements and changes to our inputs and assumptions.

We have considered the impact of climate change and the transition to renewable energy sources on impairment modelling assumptions and related risks. One of the underlying assumptions is that an appropriate regulatory response and framework will continue to exist throughout the forecast period so as to mitigate any potential risk of asset impairment or other financial outcomes that would otherwise act to materially reduce the net present value of future cash flows attached to our regulated businesses due to the impact of climate change and related Government policy response. This includes the risk of potential long term structural shifts to the energy industry, including the Gas Substitution Roadmap being developed by the Victorian Government, which under certain scenarios may result in lower gas demand and declining revenues in the gas distribution business and CGU. These scenarios have not been reflected in year-end impairment model assumptions given the Government's final Roadmap outcomes are yet to be released, and there is uncertainty regarding whether and when these outcomes will be implemented by way of Government policy in the future. In addition, there are appropriate mechanisms under the regulatory framework that support recoverability of the assets value under these scenarios.

We will continue to closely monitor this as Government's policy response to the energy transition becomes more certain.

Section C Investing in our business

Note C.5 Impairment of non-current assets (continued)

The following CGUs have intangible assets with an indefinite life:

	Cash flow projection period (i)		**Post –tax discount rate** (ii)		**Perpetual growth rate** (iii)		**Carrying value**	
	31 December 2022	**31 March 2022**	**31 December 2022**	**31 March 2022**	**31 December 2022**	**31 March 2022**	**31 December 2022**	**31 March 2022**
Regulated CGUs	**years**	**years**	**%**	**%**	**%**	**%**	**$M**	**$M**
Electricity distribution (distribution licence)	10	10	5.3	4.6	2.0	2.5	117.2	117.2
Gas distribution (distribution licence)	10	10	5.3	4.6	2.0	2.5	237.3	237.3
Unregulated CGUs								
Growth & Future Networks – field services (goodwill)	5	5	12.6	12.3	2.0	2.5	12.0	12.0

Recoverable amount is determined based on fair value less cost of disposal for the Electricity distribution and Gas distribution CGUs and value in use for Growth & Future Networks.

(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. Due to the regulated nature of our industry and vast amount of historical information available, we are able to build detailed, explicit and reliable financial forecasts for periods longer than five years. Consequently, fair value less costs to sell for Regulated CGUs are determined using forecasted cash flows over a ten-year period.

(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.

(iii) The perpetual growth rate represents the growth rate applied to extrapolate our cash flows beyond the forecast period. These growth rates are based on our expectations of the CGUs' long-term performance in their markets.

Appropriate terminal values were calculated using a range of both RAB multiples and perpetual growth rates. Assumptions were re-assessed in the current period from prior year based on updated plan and forecasts following the acquisition of the AusNet Group and current economic environment. 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*. Value in use for Growth & Future Networks CGUs is determined using forecasted cash flows over the five-year forecast period.

Note C.6 Capital commitments

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

	31 December 2022	**31 March 2022**
	$M	**$M**
Property, plant and equipment	410.8	239.9

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

Section D Financing our business

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

Note D.1 Capital management

We manage our capital structure in order to maximise the long-term returns to shareholders. We achieve this by being disciplined in the pursuit of the following objectives:

- Targeting credit metrics over the medium term that maintain a 'BBB+/Baa1' range credit rating, thereby providing financial flexibility and a low cost of capital.
- Managing financial risk prudently to ensure net exposures are maintained within target settings.
- Funding capital expenditure efficiently through various sources to meet the Board's long-term strategic objectives.

We review our capital structure and dividend policy regularly and do so in the context of our ability to continue as a going concern over the long term, to invest in opportunities that grow the business and to enhance shareholder value.

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. Refer to Note D.2 for more information. The R&CAB consists of the following items:

- Regulated Asset Base (RAB). The RAB is an economic measure used by the regulator based on regulated capital expenditure adjusted for CPI indexation and regulatory depreciation; and
- The value of contracted network assets, based on the carrying value of contracted assets in Note C.1 and finance lease receivables in Note C.3. The revenues and returns for contracted assets are set through a negotiated process. This includes the value of network assets that will form part of the RAB at the next regulatory period.

The movement of this metric over time demonstrates how the business is funding its capital expenditure in terms of debt versus income generating assets.

The net debt to R&CAB ratio as at reporting date was as follows. This ratio does not include equity credits in relation to $1,731.9 million of hybrid securities. Refer to Note D.2 for the face value of hybrid securities.

	31 December 2022 %	**31 March 2022 %**
Net debt to R&CAB	84.1	84.5

Note D.2 Borrowings

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

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

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

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

Section D Financing our business

Note D.2 Borrowings (continued)

		Carrying Value		Face Value (i)	
		31 December 2022	31 March 2022	31 December 2022	31 March 2022
	Maturity date	$M	$M	$M	$M
Current borrowings					
Domestic medium term notes		-	338.3	-	335.0
Total current borrowings		**-**	**338.3**	-	**335.0**
Non-current borrowings					
Hong Kong dollar (HKD) senior notes	2026 - 2034	752.2	729.8	700.0	700.0
Domestic medium term notes	2024 - 2043	2,386.6	2,474.0	2,550.0	2,550.0
Bank debt facilities (iii), (iv)	2025 - 2032	2,157.8	1,499.9	2,175.0	1,500.0
Euro (EUR) senior notes	2024 - 2030	2,238.8	2,217.0	2,426.2	2,426.2
Japanese yen (JPY) senior notes	2024	56.3	55.7	62.6	62.6
US dollar (USD) senior notes	2026	113.6	106.1	107.0	107.0
Norwegian kroner (NOK) senior notes	2027 - 2029	463.7	505.0	565.8	565.8
Australian dollar (AUD) hybrid securities (ii)	2080	649.6	649.5	650.0	650.0
Euro (EUR) hybrid securities (ii)	2081	983.5	946.2	1,081.9	1,081.9
Total non-current borrowings		**9,802.1**	**9,183.2**	**10,318.5**	**9,643.5**
Total borrowings		**9,802.1**	**9,521.5**	**10,318.5**	**9,978.5**
less:					
Cash and cash equivalents		16.5	270.8	16.5	270.8
Net debt		**9,785.6**	**9,250.7**	**10,302.0**	**9,707.7**

(i) Face value represents the principal amount that has to be repaid on maturity, excluding any adjustments for loan fees, discounts and interest cash flows. The face value of foreign currency debt is presented 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 in October 2025 for AUD hybrids and September 2026 for EUR hybrids.

(iii) In June and July 2022, the Company entered into new syndicated facilities. Part of the proceeds were used to repay the remaining bridging loan facility balance to fund the acquisition and general corporate purposes. As at 31 December 2022, $2,175.0 million was drawn down from these facilities.

(iv) In prior period, as a part of the financing for the acquisition of the AusNet Services Group, Australian Energy Holdings No 4 Pty Ltd (the immediate holding entity of the AusNet Pty Ltd) entered into a $2.0 billion two year bridging loan facility. On 9 March 2022, AusNet Holdings Pty Ltd assumed all liabilities of this facility. As a result, there was no cash proceeds received for the novated facility and an entry to restructure reserves of $2.0 billion was recognised as an equity transaction with owners. Subsequent to the novation, $0.5 billion of the loan was re-financed on 30 March 2022. The proceeds of $0.5 billion received from the refinancing was used to repay the counterparty, resulting in $1.5 billion remaining in non-current borrowings at 31 March 2022. (Refer to (iii) for repayment in current period).

Note D.2 Borrowings (continued)

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.2.

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 as at 31 December 2022. The fair value of total borrowings as at 31 December 2022 was $9,847.8 million (31 March 2022: $10,245.0 million).

Financial covenants

The terms of bank debt contain financial covenants that require maintenance of specified interest coverage ratios and gearing ratios. 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.

Other bank guarantees

Certain entities within the Group are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The subsidiaries have guarantee facilities with a number of institutions amounting to $15.0 million, of which $7.3 million was provided to third parties at 31 December 2022 (2022: $7.3 million).

Changes in liability arising from financing activities

The table below details the movements in the Group's interest bearing liabilities for the year ended 31 December 2022:

		Cash flow movements (financing activities)		Non-cash flow movements			
	1 April 2022	Proceeds	Repayments	Foreign exchange movements	Fair value adjustment	Funding costs	31 December 2022
	$M	$M	$M	$M	$M	$M	$M
Current	338.3	-	(335.0)	-	(3.3)	0.0	-
Non-current	9,183.2	2,175.0	(1,500.0)	289.9	(333.2)	(12.8)	9,802.1
Total	**9,521.5**	**2,175.0**	**(1,835.0)**	**289.9**	**(336.5)**	**(12.8)**	**9,802.1**

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 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 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; and
- 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.

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 distribution businesses are directly impacted by changes in interest rates. This is a result of the building block approach where interest rates are a major input in the determination of the regulatory weighted average cost of capital and consequently regulated revenues. The AER uses a Trailing Average Portfolio approach to setting the weighted average cost of debt. 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 December 2022 was 90.4 per cent (31 March 2022: 91.2 per cent).

Section D Financing our business

Note D.3 Financial risk management (continued)

(a) Interest rate risk (continued)

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.

	31 December 2022 $M	31 March 2022 $M
Financial assets		
Fixed rate instruments	13.0	206.5
Floating rate instruments	0.7	12.3
Financial liabilities (i)		
Fixed rate instruments	(9,328.8)	(8,901.2)
Floating rate instruments	(989.5)	(1,077.3)

(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 191 basis points as at 31 December 2022 (31 March 2022: 88 basis points), 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)	
	31 December 2022 $M	31 March 2022 $M	31 December 2022 $M	31 March 2022 $M
Increase in Australian interest rates with all other variables held constant	(11.6)	-	6.9	3.9
Decrease in Australian interest rates with all other variables held constant	11.6	-	(6.9)	(3.9)

There have been no changes in the methods and assumptions used in preparing the sensitivity analysis as compared to the previous period.

Due to our interest rate risk management policies, the exposure to interest rate movements 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 due to any valuation change of derivative financial instruments in cash flow hedges will unwind to zero at maturity of the derivative.

Note D.3 Financial risk management (continued)

(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 and no sensitivity analysis is required.

(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>

Note D.3 Financial risk management (continued)

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

(ii) Measurement and classification

We classify our derivative financial instruments between current and non-current based on settlement date of cash flows of the derivatives. Prior year comparatives have been restated to adopt this approach (see Section A – (a) Basis of preparation).

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

	Interest rate swaps	Forward foreign currency contracts	Cross-currency swaps	Currency options	Total net derivative financial instruments
	$M	$M	$M	$M	$M
31 December 2022					
Current assets	104.1	0.2	-	2.0	106.3
Non-current assets	745.3	0.6	68.7	10.4	825.0
Current liabilities	(24.5)	(0.2)	(163.6)	-	(188.3)
Non-current liabilities	(136.7)	(0.6)	(318.7)	-	(456.0)
Total derivative financial instruments	**688.2**	**-**	**(413.6)**	**12.4**	**287.0**
Consists of:					
- fair value hedges	(150.6)	-	(506.1)	-	(656.7)
- cash flow hedges	838.8	-	93.3	12.4	944.5
- not in a hedge relationship	-	-	(0.8)	-	(0.8)
Total derivative financial instruments	**688.2**	**-**	**(413.6)**	**12.4**	**287.0**
31 March 2022 (Restated)					
Current assets	18.2	0.3	0.1	0.2	18.8
Non-current assets	332.2	0.3	54.7	16.7	403.9
Current liabilities	(29.2)	(3.5)	(80.9)	-	(113.6)
Non-current liabilities	(138.5)	(0.5)	(287.6)	-	(426.6)
Total derivative financial instruments	**182.7**	**(3.4)**	**(313.7)**	**16.9**	**(117.5)**
Consists of:					
- fair value hedges	(43.6)	-	(439.3)	-	(482.9)
- cash flow hedges	226.2	-	126.4	16.9	369.5
- not in a hedge relationship	0.1	(3.4)	(0.8)	-	(4.1)
Total derivative financial instruments	**182.7**	**(3.4)**	**(313.7)**	**16.9**	**(117.5)**

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 December 2022 is $23.8 million (31 March 2022: $15.5 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 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.

There were no material transfers between Level 1 and Level 2 during the year.

(iii) Offsetting derivative financial instruments

Derivative assets and liabilities are presented on a gross basis. As such, as at 31 December 2022, the amount netted in other financial assets and other financial liabilities is nil (31 March 2022: nil). Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default, although these financial assets and liabilities do not meet the criteria for being presented on a net basis.

Note D.3 Financial risk management (continued)

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

(iv) Cash flow hedges

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

	Change in value of hedged item used to measure ineffectiveness $M	Change in value of hedging instrument used to measure ineffectiveness $M	Hedge ineffectiveness recognised in profit or loss (i) $M	Nominal amounts of hedging instruments (ii) $M
Interest rate risk	(438.3)	457.3	(11.6)	14,583.9
Foreign currency risk – debt	49.5	(57.4)	7.4	7,814.4
Foreign currency risk – capital expenditure	30.6	(30.7)	-	39.9
	(358.2)	369.2	(4.2)	22,438.2

(i) Included in the line items 'Finance income' and 'Finance costs' within 'Net finance costs' in the Consolidated statement of comprehensive income.

(ii) 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 and fair value hedges is $15,785.9 million (31 March 2022: $23,698.6 million).

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

	12 months to 31 December 2022 $M	9 months to 31 March 2022 $M
Opening balance of cash flow hedge reserve	215.6	(294.8)
Amounts recognised in other comprehensive income, net of income tax:		
Changes in fair value of cash flow hedges (excluding foreign currency basis spreads)	676.6	561.3
Amounts reclassified to interest expense for effective hedges (i)	(229.2)	192.1
Changes in foreign currency basis spreads	3.1	(24.1)
Tax effect	(135.0)	(218.9)
Total amounts recognised in other comprehensive income, net of income tax	**315.5**	**510.4**
Closing balance of cash flow hedge reserve	**531.1**	**215.6**

(i) The profit or loss from foreign exchange movement of hedging instrument largely offsets by the profit or loss from the foreign exchange movement of the borrowings in an effective hedge relationship.

Note D.3 Financial risk management (continued)

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

(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	Accumulated amount of fair value adjustments on hedged items	Gain/(loss) on remeasurement of hedged item	Gain/(loss) on remeasurement of hedging instruments	Nominal amounts of hedging instruments (i)
	$M	$M	$M	$M	$M
AUD denominated borrowings	(3,035.6)	149.7	148.8	(148.8)	1,268.0
Foreign currency denominated borrowings	(6,766.5)	320.8	325.3	(325.3)	5,834.5
	(9,802.1)	470.5	474.1	(474.1)	7,102.5

(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 cash flow and fair value hedges is $15,785.9 million (31 March 2022: $23,698.6 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.

Our policy is that financing facilities are to 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 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.

Notes to the consolidated financial statements
For the period from 1 April 2022 to 31 December 2022

Section D Financing our business

Note D.3 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

31 December 2022	Notes	Principal at face value $M	Carrying amount $M	Total contractual cash flows $M	Less than 1 year $M	1 – 2 years $M	2 – 5 years $M	Greater than 5 years $M
Financial assets								
Cash and cash equivalents		16.5	16.5	16.5	16.5	-	-	-
Accounts and other receivables	B.3	184.3	184.3	184.3	184.3	-	-	-
Finance lease receivable	C.4	323.9	322.3	718.1	28.3	28.5	86.3	575.0
Derivative financial assets			931.3	1,064.3	92.2	132.8	311.5	527.8
			1,454.4	**1,983.2**	**321.3**	**161.3**	**397.8**	**1,102.8**
Financial liabilities								
Trade and other payables	B.3	345.9	345.9	345.9	345.9	-	-	-
Lease liability	D.5	64.5	64.5	88.4	8.8	8.8	26.3	44.5
Bank debt facilities		2,175.0	2,157.8	2,175.0	-	-	700.0	1,475.0
Domestic medium term notes		2,550.0	2,386.6	3,315.4	98.9	223.9	701.6	2,291.0
Foreign senior notes		3,861.5	3,624.6	4,248.6	81.6	622.1	1,578.8	1,966.1
Hybrid securities (i)		1,731.9	1,633.1	1,925.6	58.6	59.6	1,807.4	-
Derivative financial liabilities			644.3	1,115.7	188.6	201.6	413.8	311.7
			10,856.8	**13,214.6**	**782.4**	**1,116.0**	**5,227.9**	**6,088.3**
Net cash outflow				**(11,231.4)**	**(461.1)**	**(954.7)**	**(4,830.1)**	**(4,985.5)**
31 March 2022								
Financial assets								
Cash and cash equivalents		272.8	272.8	272.8	272.8	-	-	-
Accounts and other receivables	B.3	177.8	177.8	177.8	177.8	-	-	-
Finance lease receivable	C.4	323.6	323.6	689.2	28.1	28.3	86.0	546.8
Derivative financial assets			420.4	447.7	(46.1)	39.2	183.3	271.3
			1,197.7	**1,590.6**	**432.6**	**67.5**	**269.3**	**818.1**
Financial liabilities								
Trade and other payables	B.3	309.9	309.9	309.9	309.9	-	-	-
Lease liability	D.5	74.4	74.4	98.8	10.5	8.6	27.1	52.6
Bi-lateral bank debt		1,500.0	1,499.8	1,500.6	-	1,500.6	-	-
Domestic medium term notes		2,885.0	2,812.3	3,719.0	443.6	88.2	419.1	2,768.1
Foreign senior notes		3,861.6	3,613.6	4,330.9	82.4	622.9	1,419.3	2,206.3
Hybrid securities (i)		1,731.9	1,595.7	1,900.7	39.2	39.7	1,821.8	-
Derivative financial liabilities			534.3	880.5	106.4	108.8	354.6	310.7
			10,440.0	**12,740.4**	**671.6**	**2,368.8**	**4,041.9**	**5,337.7**
Net cash outflow				**(11,149.8)**	**(239.0)**	**(2,301.3)**	**(3,772.6)**	**(4,519.6)**

(i) The table above assumes that the Group will exercise at the first call dates in October 2025 and September 2026. Full contractual cash flows continue until 2076, 2080 and 2081.

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 and overdraft facilities available:

	31 December 2022			31 March 2022		
Financing facilities (face value)	**Amount used $M**	**Amount unused $M**	**Total $M**	**Amount used $M**	**Amount unused $M**	**Total $M**
Unsecured bank overdraft facility, reviewed annually and payable at call	**-**	**2.5**	**2.5**	-	2.5	2.5
Unsecured working capital facility, reviewed annually	**-**	**100.0**	**100.0**	-	100.0	100.0
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement	**-**	**700.0**	**700.0**	-	700.0	700.0
Total financing facilities	**-**	**802.5**	**802.5**	-	802.5	802.5

(d) 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 as well as finance lease receivables and contract assets. The maximum credit risk exposures of these items are the gross carrying amount recognised on balance sheet. There is no collateral against these amounts. Receivables relating to regulated revenue streams (which account for the majority of the Group's revenue) are owed by retailers in the industry. There are strict regulatory requirements regarding who can obtain a retail licence and the Essential Service Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. The Australian Energy Market Operator (AEMO) also has high prudential requirements for retailers who participate in the market. Retailers must provide guarantees as requested by AEMO to minimise the risk of exposure by other participants to any defaults. There are minimal historical losses and overdue receivables.

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. Our exposure and the credit ratings of our counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Therefore, we consider the credit risk exposure to be minimal.

Expected credit losses for our receivables and financial assets (including contract assets) measured at amortised cost are estimated using a simplified approach, i.e. lifetime expected credit loss which results from all possible default events over the expected life of a financial instrument.

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. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents our maximum exposure to credit risk.

Note D.4 Net finance costs

	9 months to 31 December 2022 $M	12 months to 31 March 2022 $M Restated
Finance income		
Interest income	0.4	2.4
Lease interest income (i)	19.2	25.8
Total finance income	**19.6**	**28.2**
Finance costs (ii)		
Interest expense	295.1	337.8
Interest expense – leases (iii)	(2.4)	4.8
Other finance charges – cash	8.9	2.6
Other finance charges – non-cash	8.4	6.8
(Gain) / loss on fair value hedges	3.6	(9.0)
(Gain) / loss on transactions not in a hedge relationship	0.1	(0.1)
(Gain) / loss on hedge ineffectiveness	(4.2)	6.6
Unwind of discount on provisions	2.8	(1.5)
Defined benefit net interest (income)/expense	(1.7)	(1.2)
Capitalised finance charges (iv)	(13.5)	(18.1)
Total finance costs	**297.1**	**328.7**
Net finance costs	**277.5**	**300.5**

(i) Lease interest income is calculated using the interest rate implicit in the lease. In order to calculate to implicit interest rate, the Company has determined that the construction costs of the asset is equivalent to its fair value.

(ii) All external 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.

(iii) In the current year, lease interest expense includes a credit adjustment of $4.1 million made to correct for historical interest expense.

(iv) The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the average interest rate of 4.0 per cent (31 March 2022: 4.0 per cent) applicable to our outstanding borrowings at the end of the period.

Section D Financing our business

Note D.5 Lease liabilities

	31 December 2022	31 March 2022
	$M	$M
Lease liability – Current	7.5	6.1
Lease liability – Non-current	57.0	68.3
Total lease liabilities	**64.5**	**74.4**

Presented below is a maturity analysis of undiscounted future lease payments:

No later than 1 year	8.8	10.5
Later than 1 year and not later than 5 years	35.1	35.6
Later than 5 years	44.5	52.6
	88.4	**98.7**

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate (including reassessment of extension options).

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received with overlay adjustments specific to the lease term.

Payments associated with short-term leases and low-value assets are recognised on a straight-line basis as an expense within "Other expenses" in the consolidated income statement. Short-term leases are leases with a contractual term of 12 months or less. Furthermore, certain tax and insurance reimbursements to landlords do not convey a good or service to the Group and therefore are not included in the lease liability (non-lease payments). For the period ended 31 December 2022, $2.2 million of short-term or low value leases and non-lease payments have been recognised in the income statement (31 March 2022: $3.0 million).

Key estimates and judgements – Lease terms and incremental borrowing rate

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options, as well as economic considerations including the value of leasehold improvements, impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

The Group has estimated its incremental borrowing rate with reference to recently issued debt, quoted rates, and pricing information from debt investors for leases with terms longer than our average debt tenor.

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

Section D Financing our business

Note D.6 Equity

	Notes	31 December 2022 $M	31 March 2022 $M
Contributed equity			
Ordinary shares – fully paid	(a)	5,228.1	5,557.1
Total contributed equity		**5,228.1**	**5,557.1**

(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	Number of shares	$M
1 April 2022	Opening balance	3,835,799,900	5,557.1
24 June 2022	Return of capital (i)	-	(329.0)
31 December 2022	**Closing balance**	**3,835,799,900**	**5,228.1**
1 April 2021	Opening balance	3,801,232,373	5,492.6
25 June 2021	Dividend Reinvestment Plan (ii)	28,732,113	49.4
16 February 2022	Issuance of new shares (iii)	5,835,414	15.1
31 March 2022	**Closing balance**	**3,835,799,900**	**5,557.1**

(i) A return of capital of $329.0 million was made from AusNet Pty Ltd to Australian Energy Holdings No 4 Pty Ltd during the period ended 31 December 2022.

(ii) The value of Dividend Reinvestment Plan is net of transaction costs.

(iii) In relation to the equity-settled long-term incentive plan of the Company, 7,670,443 rights were vested during the year ended 31 March 2022 (refer to Note F.3). To satisfy the vesting of those, 5,430,962 new shares were issued, with the remainder transferred from the employee shares plan trust. In addition, 404,452 shares were issued to satisfy deferred short term incentive rights.

Notes to the consolidated financial statements
For the period from 1 April 2022 to 31 December 2022

Section D Financing our business

Note D.7 Dividends

The following dividends were approved and paid by AusNet Pty Ltd to shareholders during the current and previous financial years:

Dividend	**Date declared**	**Cents per share**	**Total dividend $M**
Current period			
Q2 Group Distribution	29 November 2022	N/A	1.2
Q3 Group Distribution	19 September 2022	N/A	132.1
Q4 Group Distribution	19 December 2022	N/A	141.3
Total dividends			**274.6**
Prior period			
Final FY2021 dividend	21 May 2021	4.75	180.6
Interim FY2022 dividend	17 November 2021	4.75	181.9
Total dividends		**9.50**	**362.5**

In the current period, dividends of $274.6 million were paid from AusNet Pty Ltd to Australian Energy Holdings No 4 Pty Ltd. For the year ended 31 March 2022, dividends of $362.5 million were paid to shareholders of the former AusNet Services Limited Group.

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

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**	**31 December 2022 %**	**31 March 2022 %**
AusNet Services (Distribution) Pty Ltd (i)	Australia	Ordinary	100.0	100.0
AusNet Services (RE) Pty Ltd (i)	Australia	Ordinary	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 Gas Services Pty Ltd	Australia	Ordinary	100.0	100.0
Mondo Power Pty Ltd (iii)	Australia	Ordinary	100.0	100.0
AusNet Services (Transmission) Pty Ltd (i)	Australia	Ordinary	100.0	100.0
AusNet Transmission Group Pty Ltd	Australia	Ordinary	100.0	100.0
Geomatic Holdings Pty Ltd (i), (ii)	Australia	Ordinary	-	100.0
Geomatic Technologies Pty Ltd (i), (ii)	Australia	Ordinary	-	100.0
AusNet Services Insurance Ltd	Guernsey	Ordinary	100.0	100.0
AusNet Services Finance Trust (i)	Australia	Ordinary	100.0	100.0

(i) These companies are not trading and are either dormant and/or holding companies.

(ii) These companies were voluntarily de-registered during the year ended 31 March 2022.

(iii) In prior period, on 15 February 2022, the Group sold 80% of its Geospatial business. The sale was implemented via a transfer of all assets and liabilities from Mondo Power Pty Ltd to a newly formed subsidiary, Geospatial.AI Pty Ltd, held by AusNet Electricity Services Pty Ltd. Immediately following the transfer, the Group sold 80% of its interest in Geospatial.AI Pty Ltd to an external party which resulted in a loss of control event. We determined that the group does not have significant influence over the entity and accounted for the remaining 20% interest as a financial asset measured at fair value through other comprehensive income. (Refer to Note C.3).

Notes to the consolidated financial statements
For the period from 1 April 2022 to 31 December 2022

Section E Group Structure

Note E.2 Parent entity information

The statement of financial position and statement of comprehensive income for AusNet Pty Ltd (on a standalone) basis for the period ended 31 December 2022 is as follows:

(a) Statement of financial position

	31 December 2022 $M	31 March 2022 $M
Current assets	137.3	17.2
Non-current assets	5,564.3	5,564.3
Total assets	**5,701.6**	**5,581.5**
Current liabilities	146.2	20.4
Non-current liabilities	-	5.7
Total liabilities	**146.2**	**26.1**
Contributed equity	5,228.1	5,557.1
Reserves	(12.4)	(12.4)
Retained profits	339.7	10.7
Total equity	**5,555.4**	**5,555.4**

(b) Statement of comprehensive income

	9 months to 31 December 2022 $M	12 months to 31 March 2022 $M
Profit for the year	603.5	181.9
Total comprehensive income for the year	603.5	181.9

(c) Contingent liabilities

Except for the contingent liabilities relating to the Group, disclosed in Note F.4, there are no additional contingent liabilities associated with the parent entity as at 31 December 2022 (31 March 2022: $0)

Note E.3 Related party transactions

(a) Major shareholders

On 16 February 2022, AusNet Pty Ltd was acquired by a consortium led by Brookfield Asset Management, via Australian Energy Holdings No 4 Pty Ltd, the Group’s new immediate holding entity. The Group’s new ultimate parent in Australia is Australian Energy Holdings No 1 Pty Ltd.

Up until 16 February 2022, AusNet Pty Ltd had 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) were considered to be related parties of AusNet Services. These entities are not considered related parties under the *Corporations Act 2001*.

(b) Transactions with related parties

For 9 months ended 31 December 2022

In the current period, related party transactions between the Group and its new shareholders and their subsidiaries consisted of:

- Dividends of $274.6 million paid to Australian Energy Holdings No 4 Pty Ltd (refer to Note D.6);
- Return of capital of $329.0 million to parent; and
- Certain contribution fees revenue ($2,000 recognised and $4,020 deferred) and bonus ($20,000) related to various capital projects, where the customers are a subsidiary or an associate of Brookfield Asset Management. Transactions were made on terms at arm’s length

For 12 months ended 31 March 2022

Subsequent to 16 February 2022

Related party transactions between the Group and its new shareholders and their subsidiaries from 16 February 2022 to 31 March 2022 include the following:

- the novation of debt from Australian Energy Holding No.4 Pty Ltd to the Group disclosed in the Statement of Note D.2
- certain property leases that the Group has entered into as a lessee prior to 16 February 2022, of which the lessors are a subsidiary or an associate of Brookfield Asset Management.
- certain services provided by suppliers, which the Group has engaged with prior to 16 February 2022, where the suppliers are a subsidiary or an associate of Brookfield Asset Management

For the period from 16 February 2022 to 31 March 2022, expenses of $14,000 was incurred. For transactions with lessors and suppliers described above, all transactions were made on terms at arm’s length.

Prior to 16 February 2022

We engaged in a wide variety of transactions with entities in the Temasek Group, State Grid via Jemena 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. All 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.

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

Section E Group Structure

Note E.3 Related party transactions (continued)

(b) Transactions with related parties (continued)

Zinfra (a subsidiary of Jemena) is one of a number of installation service providers that performs construction services under competitive tender processes. AusNet Services outsource a large portion of construction expenditure and the procurement function manages competitive tender processes for all contracts. In March 2020, following a tender process, the Group entered into an agreement with Zinfra to provide the majority of its transmission operations and maintenance field works.

The following transactions occurred with related parties within the Singapore Power and State Grid groups for the period from 1 April 2021 to 16 February 2022:

	12 months to 31 March 2022 $'000
Sales of goods and services	
Regulated revenue (i)	5,955
Services revenue	2,084
Purchases of goods and services	
Other expenses	24,945
Property, plant and equipment (construction services)	43,538
Dividends paid, net of DRP	155,983

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

(c) Key management personnel

	9 months to 31 December 2022 $	12 months to 31 March 2022 $
Short-term employee benefits	4,139,678	6,775,467
Post-employment benefits	100,669	229,605
Equity-based payments	679,498	3,287,748
Other long-term benefits	62,671	78,100
	4,982,516	10,370,920

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

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 period, the following fees were paid or payable for services provided by our auditors and its related practices. The Company's auditors, Ernst & Young, were appointed in June 2022.

	9 months to 31 December 2022 $'000	12 months to 31 March 2022 $'000
Audit and review services		
Audit and review of financial statements	848	-
Total remuneration for audit and review services	**848**	-
Assurance services		
Regulatory assurance services (i)	491	-
Other assurance services	145	-
Total remuneration for assurance services	**636**	-
Other services		
Taxation services	65	-
Other services	692	-
Total remuneration for other services	**757**	-
Total remuneration of auditors	**2,241**	-

The following fees were paid to the KPMG for assurance and non-assurance related services to certain subsidiaries of the Group.

Audit and review services		
Audit and review of financial statements	515	1,602
Total remuneration for audit and review services	**515**	**1,602**
Assurance services		
Regulatory assurance services	317	621
Total remuneration for assurance services	**317**	**621**
Other services		
Other services	122	350
Total remuneration for other services	**122**	**350**
Total remuneration of auditors	**954**	**2,573**

(i) It is our policy to employ our auditors to perform the audit of regulatory returns as these returns represent an extension of statutory audit services and we gain efficiencies when the services are performed by the same audit firm.

Note F.2 Defined benefit obligations

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

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

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

	9 months to 31 December 2022 $M	12 months to 31 March 2022 $M
Total amount included in the statement of financial position in respect of the defined benefit plan is as follows:		
Present value of defined benefit obligations	(105.1)	(105.4)
Fair value of plan assets	170.1	182.1
Net asset arising from defined benefit obligations	**65.0**	**76.7**
Amounts recognised in the income statement in respect of the defined benefit plan are as follows:		
Current service cost	1.5	2.5
Net interest income on defined benefit obligation	(1.7)	(1.2)
Total	(0.2)	1.3
Remeasurement (loss)/gains recognised during the year in other comprehensive income (i)	**(11.9)**	**16.3**

(i) Loss recognised in other comprehensive income includes the de-recognition of a contribution tax provision of $11.4 million previously recognised in the defined benefit asset balance.

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

The discount rate is the yield at the balance date on corporate bonds that have maturity dates approximating the terms of our obligations. A qualified actuary performs the calculation using the projected unit credit method. Remeasurements comprise actuarial gains and losses and the return on plan assets (excluding interest). They are recognised in full directly in retained profits in the period in which they occur and are presented in other comprehensive income.

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

Note F.2 Defined benefit obligations (continued)

(a) Movement in defined benefit plan assets and obligations

	9 months to 31 December 2022			12 months to 31 March 2022		
	Asset	Obligation	Net	Asset	Obligation	Net
	$M	$M	$M	$M	$M	$M
Movements in the fair value of plan assets/present value of defined benefit obligations were as follows:						
Opening fair value of plan assets/(defined benefit obligations)	182.1	(105.4)	76.7	196.2	(134.5)	61.7
Current service cost	-	(1.5)	(1.5)	-	(2.5)	(2.5)
Interest income/(cost)	4.6	(2.9)	1.7	4.3	(3.1)	1.2
Actuarial (loss)/gain	(2.4)	(9.5)	(11.9)	2.3	14.0	16.3
Contributions by plan participants	0.5	(0.5)	-	0.8	(0.8)	-
Benefits, taxes and premiums paid	(14.7)	14.7	-	(21.5)	21.5	-
Closing fair value of plan assets/(defined benefit obligations)	**170.1**	**(105.1)**	**65.0**	**182.1**	**(105.4)**	**76.7**

The actual return on plan assets during the period ended 31 December 2022 was a gain of $2.2 million (31 March 2022: $6.6 million).

From 1 July 2018, AusNet Services ceased to make contributions to the defined benefit plan. This contribution holiday is expected to continue during the next financial year under the Target Funding method 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 plan' assets equalling 105 per cent of plan liabilities within five years. The defined benefit superannuation plan exposes us to additional actuarial, interest rate and market risk.

(b) Analysis of plan assets

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

	31 December 2022	31 March 2022
	%	%
Investments quoted in active markets:		
Australian equities	17	17
International equities	21	20
Fixed interest securities	15	11
Unquoted investments:		
Property	6	6
Growth alternative	20	19
Defensive alternative	14	17
Cash	**7**	10
	100	**100**

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

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

Section F Other disclosures

Note F.2 Defined benefit obligations (continued)

(c) Actuarial assumptions

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

	Defined benefit expense		Defined benefit obligation	
	31 December 2022	31 March 2022	31 December 2022	31 March 2022
	%	%	%	%
Key assumptions				
Discount rate	3.5	2.3	5.2	3.5
Expected salary increase rate	2.0	2.0	3.5	2.0

As at 31 December 2022, the weighted average duration of the defined benefit obligation was 7 years (31 March 2022: 8 years).

Key estimates and judgements – Valuation of defined benefit assets and obligations

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) Defined contribution expense

During the period ended 31 December 2022, we contributed $13.3 million of defined contribution benefit to employees (31 March 2022: $18.6 million).

Section F Other disclosures

Note F.3 Long-term incentive plans

Executive Long-Term Incentive Plan

A new Executive Long-Term Incentive Plan ("the plan") has been approved by the ultimate parent board in March 2023 in relation to the performance period from 1 April 2022 to 31 December 2022.

Under the plan, the board of the ultimate parent grants notional participation interests ("PIs") to certain senior executives, including members of key management personnel. The number of PIs granted are determined in accordance with a formula based on the individual's long-term incentive opportunity and the value of the ultimate parent Company as determined by the board.

Each vested PI is a right to receive cash amounts calculated by reference to certain distributions and the value of the ultimate parent company on a per share basis. The cash payment per PI will be determined by a formula based on the adjusted equity value of the ultimate parent company.

The PIs vest evenly over five tranches on an annual basis, with the first vesting date on 31 March 2023, provided that the senior executives remain continuously employed with the Group.

The grant date has been determined to be 8 March 2023, but costs have been expensed and provided for based on services provided from the start of the performance period. $0.8 million has been expensed and recognised as a liability under employee benefits provision as at 31 December 2022.

Long term incentive plan – Share based payments (Equity-settled)

Prior to the implementation of the scheme of arrangement resulting in the acquisition of the Company by Australian Energy Holding No 4 Pty Ltd (AEH4) and the de-listing of shares from the ASX on 16 February 2022, the Group provided Long-Term Incentive benefits to some of its employees (including key management personnel) in the form of share-based payments, whereby part of an employee's remuneration was provided in exchange for performance rights (PRs) that vest into ordinary shares at no cost to the employee (equity settled transactions) in order to align to shareholder outcomes. The granting of such shares was subject to satisfaction of certain conditions and performance hurdles.

Total of 2,945,235 PRs were granted during the year ended 31 March 2022 with a fair value of $3.4 million at grant date.

Total of 7,670,443 outstanding PRs to a total value of $9.1 million was subject to accelerated vested upon the acquisition of the former AusNet Services Ltd by AEH4 on 16 February 2022, and settled at the weighted average share price of $2.6025.

An expense of $8.1 million has been recognised for the year ended 31 March 2022 in relation to equity-settled share-based payments. Of this amount $5.8m related to accelerated vesting.

Note F.4 Contingent liabilities and contingent assets

(a) Rapid Earth Fault Current Limiter (REFCL) penalty regime

On 1 May 2016, the *Electricity Safety (Bushfire Mitigation) Amendment Regulations 2016 (Amended Bushfire Mitigation Regulations)* came into effect in Victoria. The amended regulations require three Victorian distributors including AusNet to install REFCLs at designated zone substations. The purpose of the REFCL devices is to reduce the risk of a bushfire caused by a fallen powerline.

We are installing these devices across 22 of our zone substations in Victoria. Each zone substation is attributed a compliance point score from 1 to 5 with the highest value attributed to those zone substations where the mitigation measure would provide the greatest benefit depending on the degree of bushfire risk. The table below details our progress to date and anticipated progress:

Compliance date	Completed	To be completed by		Total
	1 November 2022	1 May 2023	1 November 2023	
Zone substations	19	2	1	22
Compliance points	56	6	2	64

The Group has achieved all compliance points in line with the required timeline shown above. Of the remaining 3 zone substations, compliance has been recently demonstrated at two and the respective compliance reports submitted to Energy Save Victoria (ESV) for approval. Subject to ESV granting an extension for the deadlines of 1 zone substation and 2 compliance points from 1 May 2023 to 1 November 2023 requested on 6 March 2023, the Group expects to meet final compliance deadlines of 1 November 2023. This program presents several risks, which continue to be present and are being actively managed. The risk of penalties under the regime remains possible until the program is completed.

The amended *Electricity Safety Act 1998 (Vic)* (ESA) enables Energy Safe Victoria (ESV) or the Minister, to apply to the Supreme Court of Victoria seeking the imposition of significant financial penalties if a distributor fails to achieve the number of points prescribed by the Regulations throughout the applicable period. The legislation provides that the Court can impose a maximum penalty of $2 million per point for each station for which a distributor has not achieved compliance. Accordingly, penalties of up to $10 million per zone substation can apply if AusNet fails to achieve the required capacity during the relevant compliance period. Additionally, the Court can impose a maximum daily penalty of $5,500 for each day AusNet remains non-compliant.

(b) Other matters

AusNet is involved in various tax, legal and administrative proceedings and various claims on foot, the ultimate resolution of which, in the opinion of AusNet, will not have a material effect on the consolidated financial position, results of operations or cash flows.

Other than as listed above and potential additional costs in addition to the environmental provision recognised, disclosed in Note B.3, there were no contingent liabilities or assets as at 31 December 2022 (31 March 2022: $0).

Section F Other disclosures

Note F.5 New accounting standards

(a) New accounting standards effective for the reporting period

A number of other new or amended accounting standards became mandatory in the current reporting period. None of these accounting standards and amendments that became effective in the current reporting period had a material impact on our accounting policies.

(b) New accounting standards issued but not yet effective

We have not yet early adopted any standard, interpretation, or amendment that has been issued but is not yet effective. We are currently assessing the impact of the amendments, and do not expect any of these standards to have a material impact on our financial statements upon adoption.

Note F.6 Events occurring after the balance sheet date

(a) Distribution

On 23 March 2023, the Board of AusNet Pty Ltd approved a dividend for $3.9 million to Australian Energy Holdings No 4 Pty Ltd.

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 December 2022 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 December 2022 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 31 December 2022, of the Group.

Directors' Declaration

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

(a) the financial statements and notes set out on pages 9 to 66 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 December 2022 and of its performance for the financial period ended on that date; and

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

Signed in accordance with a resolution of the Directors.

Tony Narvaez
Director

Melbourne
28 April 2023

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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

Opinion

We have audited the financial report of AusNet Pty Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance for the period ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Building a better working world

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Kester Brown
Partner

Melbourne
28 April 2023