ASX & SGX-ST Release

20 June 2016

TO: ASX Limited
Singapore Exchange Securities Trading Limited

2016 Annual Report

Attached is the AusNet Services 2016 Annual Report.

A copy of the report will be sent today to those shareholders who have elected to receive a copy. The report is also available on the company's website www.ausnetservices.com.au.

Susan Taylor
Company Secretary

AusNet Services Ltd
ABN 45 603 317 559
Level 31, 2 Southbank Boulevard
Southbank Victoria 3006, Australia
www.ausnetservices.com.au

Investor Relations
John Nicolopoulos
Manager, Investor Relations
+61 3 9695 6301 or +61 409 672 912

Corporate Relations
Jonathon Geddes
External Relations Manager
+61 3 9695 6401 or +61 410 573 278

Annual Report 2016

AusNet services

About us

AusNet Services is a leading energy delivery business, owning and operating approximately $12 billion of electricity and gas distribution assets that connect into more than 1.3 million Victorian homes and businesses.

The company has more than 2,500 employees working in our three regulated electricity and gas networks, along with our Select Solutions business.

At AusNet Services, our strengths are making the complex business of moving energy trouble-free for our customers and communities, along with being there around the clock when our customers need us.

We're also on a transformation journey, adapting our networks and related services to meet current and future energy needs.

Rest assured, safety comes first in everything we do.

AusNet Services' Gas and Electricity Distribution Networks

Contents

About this report

This report highlights AusNet Services' business performance during the financial year ending 31 March 2016. The report is prepared under section 314(2) of the *Corporations Act 2001 (Cth)*, with the information contained in this document correct as at 31 May 2016, unless otherwise stated.

Our Corporate Governance Statement and Infrastructure Entity Statement are available on our website www.ausnetservices.com.au/investors/companyreports

2016 highlights

↑ 4.6%
Revenue
$1,919m

↓ 32%
Customer complaints

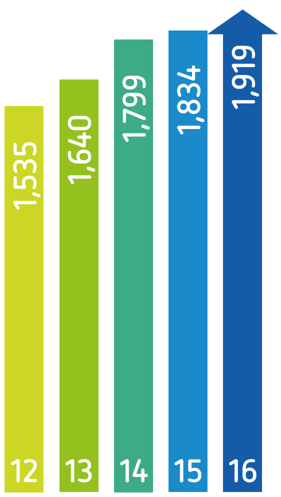
↑ 5.8%*
EBITDA
$1,142.5m

↑ 4%
Regulated and
Contracted Asset Base

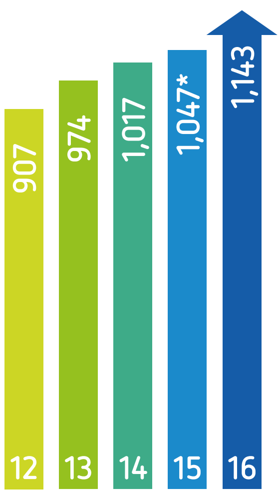
↑ 19.9%*
NPAT
$326.2m (adjusted)

↑ 2%
Dividends

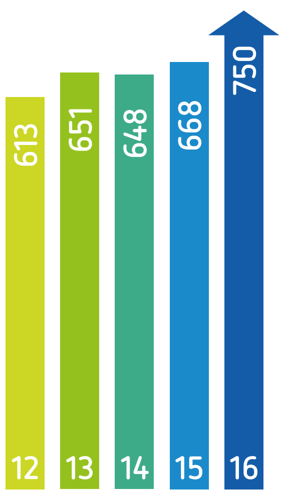
Revenue growth
A$ million



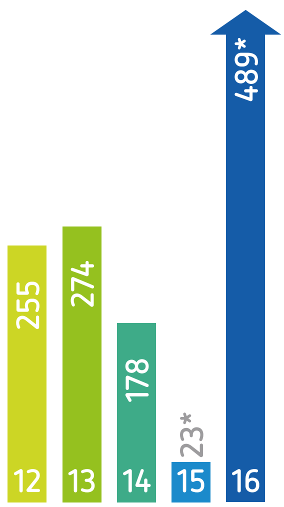
EBITDA growth
A$ million



EBIT growth
A$ million



NPAT growth
A$ million



*Adjusted NPAT FY16 $326.2m, FY15 $272.0m, Adjusted EBITDA FY15 $1,079.7m

Five-year financial summary

	2016	2015	2014	2013	2012
Revenue ($M)	1,919.0	1,833.9	1,799.4	1,639.5	1,535.4
EBITDA ($M)	1,142.5	1,047.2	1,017.4	974	907.1
EBIT ($M)	750.2	668.0	647.7	651.2	613.3
Profit for the year ($M)	489.3	22.6	178.3	273.5	255
Total assets ($M)	11,676.0	12,063.3	10,612.3	10,082.2	8,730.9
Total borrowings ($M)	6,897.7	7,216.1	6,069.2	5,277.2	4,538.5
Total equity ($M)	3,557.8	3,248.8	3,444.6	3,437.1	2,927.9
Net debt to asset base (%)	67.2%	67.5%	68.6%	68.1%	73.1%
Net gearing (%)	64%	66%	62%	58%	61%
Interest cover (times)	3.0	2.9	2.5	2.5	2.4
Dividend (cents)	8.53	8.36	8.36	8.20	8.00
Earnings per share (cents)	13.95	0.66	5.28	8.37	8.95
Capital expenditure ($M)	822.7	809.4	950.0	881.4	710.3
Operating cash flows ($M)	710.0	767.6	730.2	568.6	430.5

Other highlights

32,650
Employee safety conversations

450
Employees received safety training

25,553
New customers

↑4.1%
Electricity & gas usage

↑13%
Electricity reliability

↑15%
Gas reliability

450 leaders participated in the inaugural *Switched On Leadership* development program

First **3** "Women in Power Engineering" scholarships awarded

Chairman's Message
A strong performance as we enter our next decade

"Today, AusNet Services is a more commercial, customer and future-focused organisation, with a clear vision to maintain our focus on working safely. We are well placed to continue our transformation journey to be an agile energy delivery service business."

I would like to take this opportunity to thank shareholders for their support of AusNet Services. It is a privilege to serve as your new Chairman, and I look forward to the challenges and opportunities ahead.

I am pleased to present the 2016 Annual Report for AusNet Services, showcasing our sound position and the exciting period ahead.

During the year, our Board and Executive Leadership Team have focused on delivering greater value from our core regulated businesses, exploring growth opportunities and improving operational efficiency to deliver sustainable returns for shareholders.

A significant change during the year was the restructure of AusNet Services' triple stapled security structure into a single entity, AusNet Services Ltd.

The simplified structure broadens investor appeal, reduces administration costs, provides greater certainty in relation to the tax position of the company's capital structure and improves the ability to distribute available franking credits to shareholders.

We also settled our remaining dispute with the Australian Tax Office (ATO) over intellectual property (IP) deductions in the 1998 to 2011 tax years. This settlement concluded all tax-related disputes with the ATO.

I'm also pleased to report that our Advanced Metering Infrastructure (AMI) program is tracking to schedule for completion by early 2017.

Financial performance

Financially, we had a solid performance for the year, increasing our revenue by 4.6 per cent to $1,919.0 million, and improving our Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) by 9.1 per cent to $1,142.5 million.

Operating Net Profit After Tax (NPAT) of $489.3 million was significantly higher than last year ($22.6 million). This was due, in part, to $163.1 million of one-off tax benefits associated with the corporate restructure and ATO IP dispute settlement, along with provisions made in FY15 for an ATO intra-group financing audit settlement and AMI customer rebate provision.

On an adjusted basis, EBITDA increased by 5.8 per cent to $1,142.5 million, principally due to higher volumes and tariffs on both electricity and gas distribution networks along with prior period metering impairment. Adjusted NPAT increased by 19.9 per cent to $326.2 million.

Directors announced a final fully franked dividend of 4.265 cents for the second half of the year, payable on 22 June 2016. This takes the full year dividend for FY2016 to 8.53 cents per share, also fully franked.

With regard to funding, we continued to pursue debt funding diversification by issuing two hybrid securities in Singapore dollars and US dollars, respectively, totalling A$705 million. These issues have assisted in maintaining the company's highly regarded 'A' range credit rating, and will support unregulated growth opportunities, such as our recent agreement to purchase the Mortlake Terminal Station.

Board Composition

I would like to acknowledge our former Chairman, Ng Kee Choe, who retired from the Board in May. Mr Ng served as Chairman of the company for over ten years, from the time of the initial public offering in 2005. He helped to steer the company through a range of extraordinary events, including the company's involvement in the Royal Commission and class actions relating to Victoria's Black Saturday bushfires, a complex corporate restructure and simplification process, a change of name, and the settlement of the tax office disputes mentioned above. Having all of these issues behind us allows us now to focus on consolidating our position and preparing for a dynamic future.

On behalf of the Board of Directors, I would like to thank Mr Ng for his dedication while serving as Chairman and Director of the Board, and to wish him well for his future endeavours.

During the year, the Board also farewelled Directors Tony Iannello and Ian Renard, both of whom ceased as Directors in July 2015 after many years of valuable service. I would also like to thank them both, on behalf of the Board, for their contributions.

In addition to the recent retirement of Mr Ng, the Board also recently welcomed Mr Tan Chee Meng as a Non-executive Director, on the nomination of Singapore Power.

The next 10 years

In December 2015, we celebrated 10 years since our listing on the Australian and Singapore stock exchanges.

In that time, the company has paid over $2.4 billion in dividends to shareholders, increased revenues from $760 million to more than $1,900 million, and EBITDA from $360 million to more than $1,100 million. Our asset base has grown substantially too, with $6.2 billion of capital invested in our networks, growing our Regulated and Contracted Asset Base by $4.5 billion.

Today, AusNet Services is a more commercial, customer and future-focused organisation, with a clear vision to maintain our focus on working safely. We are well placed to continue our transformation journey to be an agile energy delivery service business.

In closing, I thank our shareholders, customers, employees, fellow Directors and management – in particular, Managing Director Nino Ficca – for establishing the sound position which AusNet Services now occupies, preparing the company well to tackle the future.

I extend an invitation to join the Board and the Executive Leadership Team for our Annual General Meeting, which will be held in Melbourne on 21 July 2016.

Peter Mason, AM
Chairman

Managing Director's Report
Delivering results in a time of change

"As we move forward, our revised purpose is to *Empower communities and their energy future.*"

The Chairman's message of our 'breakthrough decade' shows how our company has continued to remain resilient and transform so we can remain relevant and successful for the future.

Safety

The safety of our people, customers and communities we operate in is our highest priority. Five years ago we launched our missionZero safety strategy, which has helped reduce our recordable injury frequency rate (RIFR) by more than 40 per cent.

Our 2016 company safety results show that while we are seeing areas of strong improvement, there was an unacceptable variance in our company-wide performance, resulting in a RIFR deterioration of 3.2 per cent.

As part of our commitment to becoming an industry leader in safety performance, we've refreshed our foundation missionZero safety program with a focus on critical risk management and continuous improvements in safety systems and measurement.

Network performance

We achieved a strong financial result during the year, with EBITDA up 9.1 per cent from higher revenues across all of our regulated networks.

Our electricity distribution network has achieved significant year-on-year EBITDA growth of 26.9 per cent, driven by a 9.5 per cent increase in revenue from regulated price increases and metering revenues.

For our gas distribution and electricity transmission networks, revenues slightly increased by 0.8 per cent and 1 per cent, respectively. However, EBITDA declined by 3.7 per cent for our gas network, mainly due to declining customer contributions, and 5.7 per cent for the transmission network due to higher operating expenses, including costs related to the corporate restructure and Section 163AA ATO tax dispute.

Capital expenditure on the transmission network increased 17 per cent, primarily due to the upgrade of the Brunswick Terminal Station.

We saw organic growth continue within the growth corridors of our distribution networks, adding more than 25,000 new gas and electricity customers, which along with a colder winter contributed to a 4.1 per cent volume increase across both networks.

Importantly, the positive performance of our networks earned $48.4 million in incentive payments, driven by the significant reduction in the frequency and duration of unplanned electricity outages, along with a continued decline in ground and assets fires.

In May 2015, we implemented a new Enterprise Resource Planning (ERP) system that will help reduce our operating cost base and enabling easier access to more accurate and reliable information, leading to better decision-making and customer outcomes.

As well as processes and systems, we have commenced a program to review and restructure our organisation, to ensure our people and skills are aligned and remove structural barriers to efficient ways of working.

Our overall increase in revenue and earnings is a great sign that the changes we've been delivering are taking hold and generating benefits – especially efforts to reduce costs and increase operating efficiency through major process and system improvement programs.

Customers

During the year, we continued to consult with customers on the five-year regulatory proposals for our electricity networks, gathering valuable customer feedback on our proposed investment programs.

Improving our service capabilities was also a focus, as we took steps to improve how we plan, schedule and communicate electricity maintenance.

On a performance basis, we've improved our customer effort score by 8 per cent and reduced customer complaints by 32 per cent. We also improved the reliability of our electricity and gas networks for our customers by 13 per cent and 15 per cent respectively, compared with the previous year.

People

Over the past decade, we've employed and trained more than 260 apprentices/trainees and 50 graduates, along with growing our female workforce participation from 14 per cent to nearly 21 per cent.

In the past year, we announced a major educational partnership with Deakin University to offer eight 'Women in Power Engineering' scholarships, including vocation work and mentoring support, to increase the number of women entering the power engineering profession.

Our programs are indicative of a company becoming more inclusive and flexible, which is a must for attracting the talent required for our future business needs.

We've also focused on significantly enhancing our leadership capability, with more than 400 leaders participating in our 'Switched On Leadership' program, focused on learning and improving through on-the-job experience, peer support and mentoring.

Outlook

Creating a leading modern energy company

The last few years have been focused on delivering the change and readying ourselves for the future. With this in mind, we have refreshed our purpose to 'Empower communities and their energy future'.

We have recently launched a new five-year strategy to refocus, reprioritise and accelerate our efforts in response to our changing operating environment.

Our strategy for success remains centred on delivering sustained returns to shareholders by delivering value from the core regulated energy network business, pursuing growth opportunities in commercial energy infrastructure service markets and driving efficiency.

Generating trust and respect with customers and delivery partners is also paramount. As such, we're continuing to refine our service capabilities and investment in innovations that improve our customers' experience. Working with our customers on adapting new technologies for a shared benefit is also underway.

By pursuing our aspirational goal of becoming a leading modern energy company with a diverse business portfolio, we believe we can empower communities to deliver their energy needs in the years ahead.

Mr Nino Ficca
Managing Director

Delivering change for a bright future

A future that cares for people, with a priority on safety

AusNet Services is committed to the safety of our people, customers and the communities in which we operate. We continue to invest in improving the safety and security of workplaces and networks to safeguard the wellbeing of all people participating in our energy delivery service.

Safer workplaces

The nature of our industry and the areas in which we operate mean that our people often work in hazardous environments, particularly those involved in our field service activities.

Since launching our missionZero safety program in April 2011, the organisation has achieved significant improvements in safety leadership accountability and cultural maturity. We've also reduced our Recordable Injury Frequency Rate (RIFR) by almost 40 per cent from 11.42 to 6.91 incidents per million working hours.

For FY2016, our RIFR was disappointing, deteriorating 3.2 per cent from 6.70 to 6.91, with injuries in one area of our business operations accounting for more than 40 per cent of recordable injuries. While most injuries in this area were not severe, the frequency of injury occurrence was unacceptable and we are progressing with a range of leadership-led activities aimed at improving performance. At the same time, we achieved some outstanding safety performance in many other areas of our business, most notably in our field-based Service Delivery division, which recorded a 22 per cent year-on-year improvement in RIFR and more than 60 per cent improvement since the 2011 launch of missionZero.

We remained focused on safety leadership, employee engagement and launched a new critical risk program during the year. This included 450 employees receiving safety training, while our employees recorded more than 32,650 employee safety conversations.

Our '2015 Stop for Safety' program generated 140 safety solutions from our employee teams, and set clear leadership and behaviour expectations for every AusNet Services employee.

Notwithstanding the challenges faced in FY2016, the Executive Leadership Team remains committed to becoming an industry leader in safety performance. To support this, our FY2017 plans will include a company-wide focus on critical risk management, to identify and mitigate those safety risks that have the potential for greatest impact and harm.

Safer communities from safer networks

A key part of AusNet Services' daily work is to maintain and upgrade the networks to ensure they remain safe and reliable for our customers and communities, notably including our ongoing bushfire mitigation program.

A good example of the many network safety improvement projects undertaken last year is the $40 million Dandenong Ranges powerline upgrade. The two-year project, involving replacing more than 50 kilometres of overhead powerlines with underground lines, was delivered on time and on budget. The Dandenong Ranges is home to more than 100,000 residents scattered throughout thick vegetation, rolling hills and steep valleys, which pose many challenges to relocate powerlines underground.

Our project team developed a new 'hybrid' underground cable system, whereby cables buried along roadways rise out of the ground to connect to existing powerpoles to deliver electricity into homes via existing overhead low-voltage powerlines. This eliminates the use of large cabinets connected to the underground cables, which weren't an option due to the lack of available flat ground space and potential impact to the environment. Importantly, this innovative approach is improving the safety and reliability of supply for residents and businesses in the Dandenong Ranges by reducing the interference from vegetation and animals.

This project, achieved with support from the local community, complements many other safety enhancement projects and technologies used to significantly improve our safety and reliability.

During the year, we outperformed our regulatory benchmark (f-factor) for ground and asset fires by 54 per cent and also reduced incidents with the potential to start fires by 4 per cent.

Our programs rely on effective monitoring approaches, a good example being Geomatic Technologies, one of AusNet Services' businesses, in-house spatial technology innovation to survey lines from a 4WD vehicle, capturing extensive data which is then processed to provide a detailed record of the state of the network.

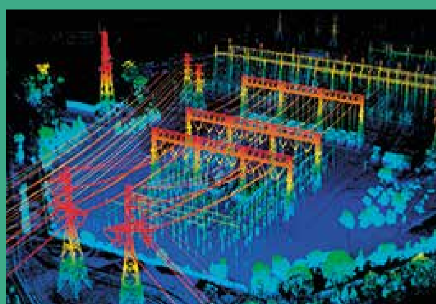
GT wins spatial excellence award

This year, our Geomatic Technologies (GT) business won the 'Innovation and Commercialisation' award at the 2016 Asia Pacific Spatial Excellence Awards (APSEA) for its 'unique approach to the Bushfire Safety Clearance Program'.

The Program is used to assist Victoria's rural electricity distributors AusNet Services and Powercor Australia to implement efficient methods for measuring conductor separation across hundreds of kilometres of lines, often in remote and challenging terrain.

GT's mobile laser scanning solution uses spatial technology to survey lines from a 4WD vehicle, capturing extensive data which is then processed to provide a detailed record of the state of the network. GT's innovative system is an effective method of conducting the survey, allowing us to meet safety regulatory requirements.

This type of technology marks the future direction of network monitoring and management and our success at this event is an indicator of our strong reputation for business innovation in this field.



Improving customer experience

Our transformation journey to enhance our customers' experience continues.

Delivering more reliable customer service

During the year, we improved the reliability of our electricity and gas networks for our customers by 13 per cent and 15 per cent, respectively, compared with the previous year.

This was achieved through a range of initiatives – including continued investment in our vegetation, asset maintenance and safety programs. This has seen an improvement in duration of unplanned outages and further evidenced by the reduction in customer complaints on this issue.

Looking broadly, a 32 per cent overall reduction in electricity complaints compared with the previous year is a strong indicator of our improving customer service performance.

Over the last year we received notably fewer complaints associated with our AMI smart meter program, solar activities, work practices and new connections, amongst other categories.

These results are a positive endorsement for the significant programs completed and underway.

Improved planned electricity outages

A key priority in recent years has been improving management of planned outages across our electricity network. This has involved reviews into how we coordinate, execute and communicate planned outages for maintenance and projects.

In FY2016, over 10,000 planned electricity outages were conducted. Of these, 7,960 outages required significant preparation to interrupt electricity supply to 688,974 customers for maintenance or project work, with special consideration for sensitive and life support customers.

Through a number of process, system and communications initiatives, we have reduced the impact of planned electricity outages on our customers significantly. This is evident from a 43 per cent reduction in planned outage customer complaints (from 369 down to 210 complaints) over the past financial year. Since 2013, the reduction is 65 per cent, from 604 down to 210 planned outage complaints.

Better preparation includes improved advisory communications such as notification letters, use of SMS and phone calls. In FY2016, we updated our outage communications materials, channels and frequency, and this continues.

More to do on unplanned outage performance

Work will continue in FY2017 to improve the accuracy of estimated customer restoration times. This will include the launch of a new mobile outage map website at www.outagetracker.com.au to assist our customers in tracking the status of planned and unplanned outages.

↓ 43%
Planned outage customer complaints

↓ 42%
Unplanned outages (duration) customer complaints

A new way of working

Our customer service improvement initiatives are part of our 'new way of working'.

In May 2015, we went live with a new Enterprise Resource Planning (ERP) system delivered on time and on budget.

This system is designed to provide our people with one new way of working for all our businesses that fully integrates our operations and financial activity.

The overall aim is to standardise our operations and reduce our operating cost base by working more efficiently and effectively so we can provide better service to our customers.

Our new ERP system, replacing almost two-thirds of our key business applications into one, provides many possibilities for identifying process efficiency improvements across the company.

It also forms the foundation for a process-led organisation and a 'workplace of the future' our people can experience and shape.

Importantly, ERP has been rolled out to our employees in the field through the use of mobile devices, which makes our new way of working available to people, wherever they are.

Our people leading the way

Over the last few years, our people have been working hard towards delivering on our strategic objective to have high performing leadership, capability and culture through increasing training, streamlining processes and embedding diversity initiatives across the company.

Driving accountability through Switched on Leadership

In FY2016, the first phase of our Switched On Leadership program was rolled out to all 450 executive, strategic, operational and frontline leaders. The aim of the program, which will continue in FY2017, is to drive a culture of accountability, transparency, high performance and organisational excellence.

Supporting change

Our people, with strong support from leadership, continued to be actively involved in generating ideas and delivering the many change initiatives required in our business plans. The team effort to support change and transform our business is building a more efficient, commercial and customer focused culture, which we are continuing to grow as we lay the foundations for our future.

Diversity leading to better business outcomes

Last year, the total number of women in the workforce increased one per cent to 20 per cent. The increase reflects more female representation in strategic leadership, operational management and engineering roles.

To support our drive for improved gender diversity, we have implemented a range of leadership-led initiatives, including diversity and inclusiveness training, Women's Career Development programs, flexible working arrangements, talent career conversations and divisional diversity action plans, as well as reviewing our core people systems and processes to ensure that they are free from gender bias.

We are also tracking the number of women being interviewed per job vacancy – to ensure we are making every effort to access the total recruitment talent pool.

Our actions to increase gender diversity are another step towards teams making good business decisions that will have a positive effect on our customers.

Skilling for the future

Continuing our longstanding commitment to skilling for the future, in 2015 we appointed 13 graduate engineers and 11 apprentices and trainees to be trained and mentored in a fulfilling career in energy.

Our people investing in us

2015 was the fourth year we offered eligible employees the opportunity to secure shares in AusNet Services via the General Employee Exempt Security Plan (GEESP). Again we saw a high number of employees deciding the take up the offer with 41.2 per cent deciding to do so – up from 37.2 per cent in 2012. The company's yearly GEESP program is considered a highly successful employee engagement initiative.

20%
women in the workforce **UP 1%**

41%
uptake in GEESP offer **UP 4%**

Women in power engineering

Offering scholarships for women to complete their power engineering degrees is an important initiative AusNet Services encourages to support diversity in the industry.

In 2015, we announced a major educational partnership with Deakin University to offer eight women power engineering scholarships over three years.

The partnership aims to increase the number of women choosing power engineering – a discipline in which women are significantly under represented. The scholarships will include vocation work and mentoring to supplement their studies.

As part of this agreement, in March 2016 we offered the first three of these eight scholarships, involving a $10,000 annual payment, together with mentoring and work placements.

By partnering with Deakin, we have also offered two PhD positions and a research position to investigate possible network solutions with the potential for commercial outcomes.

We also continued our partnership with RMIT by offering two female third year students a bursary to complete their studies.

Working with our communities

AusNet Services plays an important role in the communities in which we operate by keeping the lights on 24 hours a day, being a local employer of choice and partnering with community groups to offer development grants through our sponsorships and donations fund.

Partnering to develop communities

This year we offered $40,000 in community development grants with the support of Bass Coast Shire Council and for the first time in our gas region, Wyndham City Council. We're proud to have been able to help local not-for-profit community groups to deliver projects with broad community benefits.

Helping communities get active

AusNet Services is a major sponsor of the Brunswick Zebras Football Club by supporting their senior's team and local refugee children to play soccer

Supporting education in our communities

To ensure we promote careers in energy to university and high school students, we were again a proud sponsor of the Victorian Energy Education Training (VEET) program – a program offered to year 10 to 12 students across Gippsland to gain a better understanding of electrical and engineering studies and its link to employment.

As a result of supporting the program, this year, three out of our 11 apprentices and trainees came through VEET.

Our employees are the pillars of their communities

Since 2010, our people have been recognised at work and in their community for their volunteering activities through our Community Cornerstone program.

Twice a year, employees are invited to apply for a $500 grant to give to a not-for-profit organisation they volunteer at least 20 hours of their time to per year. In 2015, a total of $29,000 was donated to not-for-profit organisations across Victoria.

Recipients of Community Cornerstone grants are:

- Sporting clubs
- Local CFAs
- RSL Clubs
- Lions Clubs
- Salvation Army
- Community groups helping the underprivileged

Also, through a salary sacrificing arrangement, a large number of employees donate to a nominated not for profit organisation and in 2015, donations totalled more than $20,000.

Community grant helps disadvantaged youths

AusNet Services awarded a $3,000 grant to the L2P Learner Driver Mentor Program through our $20,000 Community Development Fund run in partnership with the Bass Coast Shire Council.

L2P, an initiative by the Wonthaggi Neighbourhood Centre, provides disadvantaged learner drivers in the Bass Coast with a VicRoads-trained volunteer mentor and a vehicle to achieve 120 hours of supervised driving necessary for the probationary license test.

Training these youths to obtain their probationary licence mobilises them to access inaccessible employment opportunities or education services, along with increasing their social inclusion and personal confidence.

Importantly for AusNet Services with a commitment to safety, the 120 hours of supervised driver training prepares these inexperienced drivers with the skills to safely merge onto the roads as safer drivers.

Empowering communities and their energy future: mini-grid trial

AusNet Services has started a trial that involves working with the local community to power part of a suburban street with a combination of solar panels, storage batteries and the electricity grid.

The trial, known as the Mooroolbark Mini Grid Project, is the first of its type in Australia. It is designed to increase understanding of the 'mini grid' – how it can be managed, and how it interacts with the main power grid. A 'mini grid' is a group of interconnected power consumption and generation sources within a clearly defined electrical boundary. It can operate in both grid-connected and independent (or 'islanded') modes.

The 14 houses in the Mooroolbark Mini Grid Project have a common connection point to the grid and each house generates and stores its own electricity, and will be able to share electricity with other houses within the mini grid. We have equipped each house with a solar power system, a purpose-built 10 kilowatt hour battery and associated control and data communication equipment.

AusNet Services has developed a control system that allows the project team to monitor and control energy flows within the mini grid. This control system will enable the energy that is stored in batteries to be shared between houses, based on the needs of individual residences.

Once we have our control system fully operational, we can tailor a mini grid to the specific needs of a range of communities.

For communities looking for an effective combination of renewable energy and reliability, the mini grid formula – *renewable energy + battery storage + power grid* – could be the answer.

A future delivering value and growth from digital services and innovation

It's clear we're in a "digital" world where constant connectivity everywhere is the norm and where industrial development will take the form of smart industry, enabled by smart infrastructure that empowers communities. Resource and energy efficiency will be the name of the game – and will increasingly come from managing digital information flows, analysing data and managing the distribution of increasing amounts and diverse forms of energy.

Investing in network modernisation

The combination of changing energy consumption trends, increases in customer demand for energy data and the AER's new customer engagement requirements, have created an unprecedented need for Australian energy companies to have an innovative approach to customers' energy management needs and optimising network infrastructure investment.

We have seized this opportunity to implement and trial a range of new technologies and initiatives with the aim of building smarter networks that can empower customers and their choice of supply arrangements, help efficiently manage peak demand and reduce overall network investment.

Smart meters – where the value starts

The most significant single technology impact on the electricity distribution network has been the replacement of analogue meters with digital 'smart' meters, which capture and communicate never-before-accessible network and customer data. We believe they are the key to unlocking safety and reliability value for our customers, and productivity value for shareholders.

The company has installed smart meters into more than 700,000 homes and businesses and we're on track for all these meters to facilitate remote services and be receiving data remotely by early 2017. The timely access to this data is already fuelling a revolution in our business processes.

With so much more data, we're making better decisions. For example, smart meter data has greatly enhanced the effectiveness of our distribution substation upgrade program, reducing hot day overloads when demand is highest and customers are most sensitive. This is a great example of how smart meter technology is helping us improve how we prepare and manage the network for major weather and environmental events and in the process, meet heightened regulatory and government network safety standards.

In addition to Victorian Government-mandated meter features, our network modernisation team has developed world-leading applications using meter data. For example, we're the only company that can identify deteriorated service lines into customer properties. As a result, we've identified more than 1,400 potential electric shock incidents since 2013.

Another unique service that we offer our customers is the ability to detect and alert them that their excess solar-generated electricity is not exporting into our network, which means they are not getting the benefit of their investment. A quick call and they can rectify the situation.

Adapting networks for alternate energy generation technologies

Currently, around 13 per cent of our residential customers have installed solar panels, and we forecast that around 20 per cent of our customers will have solar by 2019. At the same time, battery technology is emerging as a significant opportunity in Australia. To understand this direction that our early adopting customers may take and the impact on the network, we have undertaken residential and network battery trials in the last few years.

This year, we're in the early stages of an exciting community project to support the creation of a neighbourhood mini-grid.

Enabling a digital business

Digital capabilities will deliver business outcomes and efficiencies to enable growth, respond to regulatory change, reduce risk and improve effectiveness across people, processes and technology.

Digital platforms will provide the tools to innovate, orchestrate and integrate technology and information to deliver efficient operational outcomes, and capture new opportunities. Digital capabilities will position our business for growth, by improving customer and network insights to support the delivery of new products and services.

We are investing in new data management, information analytics and information security capabilities. Our networks will benefit from the convergence of information and operational technologies, as we invest in our core systems and technologies; ERP (SAP), Network Management, GIS, telecommunications and information. We will have improved and integrated intelligence on asset, work, safety and customer information, to ensure reliable services and network delivery. New digital capabilities will provide improved customer focus, and improved customer services.

Growth aligned with our core

A continued focus at AusNet Services has been expanding our electricity and gas distribution networks, while seeking non-regulated revenue opportunities aligned to our core networks.

During the year, we connected 12,165 new electricity and 13,388 gas customers, an increase of 1.8 per cent and 2.1 per cent respectively, mostly driven by the continued population increase within Victoria's growth corridors.

The increased demand within the gas network also saw us increase capacity investment, with two key construction projects including a new gas city gate at Mt Cottrell near Werribee and a second gas pipeline from Geelong to Torquay, providing capacity for an expected 5,000 additional homes and businesses in the region.

Outside of our regulatory networks, in February we announced an agreement to acquire the Mortlake Terminal Station for a total of $116.5 million. The terminal station facilitates the export of electricity generated at Origin Energy's gas-fired power station into our 500kV electricity transmission network, situated approximately half-way between our Moorabool and Heywood terminal stations. We have operated and maintained the terminal station since its commissioning in 2011.

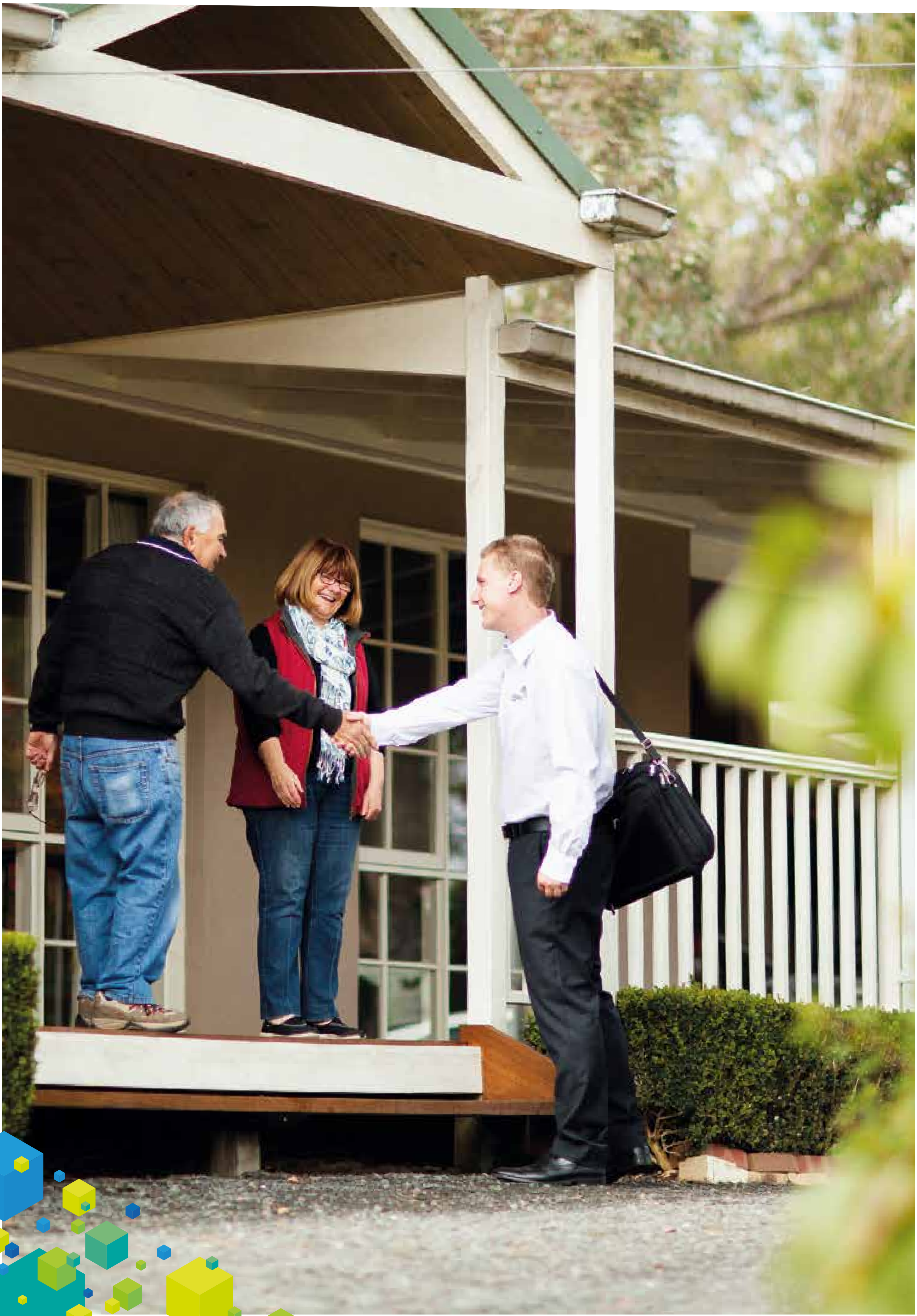
Under the agreement terms, we will receive long-term fixed revenue entitlements, escalating annually with CPI. These arrangements are expected to increase our cash inflows by $8.8 million in FY2018, being the first full-year contribution.

This acquisition is in line with our strategy to prudently pursue commercially contracted infrastructure closely aligned to our core operations and that generate attractive returns.

↑2.1%
Gas customers

↑1.8%
Electricity customers

"The increased demand within the gas network saw us construct a second gas pipeline from Geelong to Torquay, providing capacity for an expected 5,000 additional homes and business in the region."



Our future in a modern energy world

The world and AusNet Services of today are certainly different to 10 years ago. While it seems the pace of change over the past decade has been rapid, we expect an even faster rate of change in the 10 years ahead.

Energy's future – driven by the customer and technology

Already influential, we believe that the customer and technology will strengthen their impact as the key drivers of change into the next decade. More empowered and energy-savvy consumers will seek to interface with the grid in a more informed and dynamic way, which will incentivise developments in technology. In this new paradigm, the role of data – on consumption patterns, energy efficiency and performance – will be paramount. New technologies, including but not limited to embedded/distributed generation, renewables and storage, will be driven by data and digital technology documents.

A more dynamic role for energy networks

In the future, energy networks will need to adapt further, to be enablers for new generation sources and energy market innovations across all our networks. For example, networks will need to enable the sharing of energy between members of neighbourhood solar mini-grids and between the mini-grids and larger traditional networks.

Renewables are also likely to continue to become more economic at scale meaning traditional networks like ours will be transporting the majority of the State's energy between where it's generated at scale and consumed at scale.

Economic regulation and policy will also need to adapt. While still regulated, the energy industry will continue to use its knowledge and capabilities to influence how the future regulatory framework supports and incentivises customer and technology-led change. AusNet Services must play a significant and leading role in shaping the industry's future form.

Our strategy for success intensifies

At AusNet Services, we have been delivering the change and building significant capabilities to really make a positive difference in everything we do. This expertise in assets, customer, process, system, digital technology, workforce and leadership also allow our business to better anticipate and adapt to our changing environment.

Our strategy for success remains centred on delivering value from the core regulated energy network business, and pursuing growth opportunities in commercial services markets. We have refreshed this strategy to refocus, reprioritise and accelerate our efforts in response to our changing operating environment.

At the highest level, our FY2017-2021 five year strategy for delivering value is to leverage our core capabilities in networks, assets, high value services and innovation to build a portfolio of high performing and sustainable regulated and commercial services businesses. Specifically, we will: lead network transformation in our regulated business; grow commercial services; drive efficiency and effectiveness; and generate trust and respect with customers and partners to build our reputation.

With growing capabilities – ours and our partners – and better understanding of customers, when combined with our longstanding, prominent energy network position in Victoria, we are confident AusNet Services is well placed to deliver on this challenging strategy within the next five years.

Reenergised with new aspirations and purpose

Our business has aligned around an accelerated five year business plan, 'Focus 2021', with the aim to be recognised as a leading modern energy company with a diverse business portfolio:

> Operating all three core networks in the top quartile of efficiency benchmarks; and

> Owning a substantial and sustainable commercial services business.

By delivering on the Focus 2021 business plan, we will grow AusNet Services' stature to these levels and realise our leadership aspirations in a modern energy world.

At AusNet Services we move energy – that's our primary job, now and in the future. We continue to learn and strive to be the best version of ourselves.

Through our developing knowledge and expertise, re-energised and guided by our strategy and values, we are doing our job to the benefit of all our stakeholders with a greater sense of purpose – ***to empower communities and their energy future***.

Welcome to the Financial Report

Contents

Directors' Report

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

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

The consolidated financial report is a continuation of the previously reported combined financial statements of the Stapled Group, which consisted of AusNet Services (Distribution) Ltd (AusNet Services Distribution) and its subsidiaries, AusNet Services (Transmission) Ltd (AusNet Services Transmission) and its subsidiaries, and AusNet Services Finance Trust.

Restructure and simplification of the Stapled Group

On 18 June 2015, following securityholder approval at a meeting held on 29 May 2015, and with approvals from regulators and the Court, AusNet Services' proposal (Proposal) came into effect, whereby previously stapled securities were converted to wholly owned shares by a new listed entity (AusNet Services Ltd). The Proposal was implemented by way of company and trust schemes of arrangement.

The new simplified structure 'at a glance':

> eligible securityholders now hold shares in AusNet Services Ltd (instead of the previous triple-stapled security) in the same proportion as the stapled securities previously held;

> there was no capital raising or return of capital as part of the changed structure and securityholders were not required to pay any cash consideration;

> there was no change to the composition of the AusNet Services Board, management or the operations of AusNet Services as a result of the restructure; and

> future periodic distributions are expected to be paid entirely as dividends and AusNet Services expects that there will be a higher franked component of future dividends above the historical average franking levels. Those dividends will not include any AusNet Services Finance Trust distribution components as they have historically.

Certain foreign securityholders who AusNet Services determined that it would be illegal or unduly onerous to allow to receive shares in AusNet Services Ltd under the Proposal did not receive those shares, and instead had their investment in AusNet Services sold on market by a nominee and the proceeds of that sale remitted to them in cash. This ineligibility affected a small proportion of AusNet Services securityholders.

AusNet Services Ltd
ACN 603 317 559

Financial Report

For the financial year ended 31 March 2016

Financial Statements

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

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

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

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

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

What we do

We move energy.

The principal activities of AusNet Services are:

> **Electricity distribution** – delivery of electricity to over 690,000 customer connection points over 80,000 square kilometres in eastern Victoria including Melbourne's outer eastern suburbs;

> **Gas distribution** – delivery of natural gas to over 660,000 customer connection points over 60,000 square kilometres in central and western Victoria including some of Melbourne's western suburbs;

> **Electricity transmission** – the transmission of electricity within the state of Victoria; and

> **Select Solutions (incorporating Geomatic Technologies)** – the provision of specialist metering, asset intelligence and telecommunication solutions to the utility and infrastructure sectors.

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

> AusNet Electricity Services Pty Ltd;

> AusNet Gas Services Pty Ltd;

> Select Solutions Group Pty Ltd; and

> AusNet Transmission Group Pty Ltd.

Our Values

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

We work safely

We do what's right

We're one team

We deliver

Our Board of Directors

The persons listed below were Directors of AusNet Services Ltd, and prior to the corporate restructure were Directors of AusNet Services Distribution, AusNet Services Transmission and AusNet Services (RE) Ltd (trustee for AusNet Services Finance Trust), during the whole of the financial period and up to the date of this report unless otherwise noted.

Ng Kee Choe

Chairman – Non-executive (appointed 2005, resigned 11 May 2016)

Bachelor of Science (Honours), University of Singapore

Experience and expertise

Mr Ng serves as Chairman of CapitaLand Ltd. He is also President-Commissioner of PT Bank Danamon Indonesia, Tbk. Mr Ng is a Director of Fullerton Financial Holdings Pte Ltd. He is a member of the International Advisory Council of China Development Bank and the Board of Trustees of Temasek Trust. Mr Ng serves as Chairman of Tanah Merah Country Club. Mr Ng was formerly the Chairman and Director of Singapore Power Limited, CapitaMalls Asia Limited and NTUC Income Insurance Co-Operative Limited. He served as a Director of Singapore Airport Terminal Services Limited and Singapore Exchange Limited. He was also Vice-Chairman and Director of DBS Group Holdings, retiring from his executive position in 2003 after 33 years' service.

Other current listed company directorships

PT Bank Danamon Indonesia, Tbk (2004 to date) (Jakarta Stock Exchange listed entity)
CapitaLand Limited (2010 to date) (SGX-ST listed entity)

Former listed company directorships in last three years

Singapore Exchange Ltd (2003 to 2014) (SGX-ST listed entity)
CapitaMalls Asia Limited (2013 to 2014) (SGX-ST and Hong Kong Stock Exchange Listed entity)

Special responsibilities

Chairman of the AusNet Services Board, Chairman of the Nomination Committee and Chairman of the Issuing Committee.

Nino Ficca

Managing Director (appointed 2005)

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

Experience and expertise

Mr Ficca has over 30 years' experience in the energy industry, including numerous senior management roles with AusNet Transmission Group Pty Ltd (formerly SPI PowerNet Pty Ltd) including as Managing Director since 2003. Mr Ficca is a Director of Energy Networks Association Limited and Chairman of Cigre Australia. He is Chair of the Deakin University Engineering Advisory Board. He was formerly Deputy Chairman and Director of the Energy Supply Association of Australia.

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Managing Director and member of the Bushfire Litigation Committee and the Issuing Committee.

Ralph Craven

Non-executive Director (appointed 2014)

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

Experience and expertise

Dr Craven has served on the boards of listed and unlisted companies for over 10 years. He has deep governance and related experience.

Dr Craven's professional experience spans energy, resources and infrastructure having worked in these sectors for over 35 years. His background encompasses electricity and gas businesses, mining, commodities trading, and the management of large scale system operations at the national level and the delivery of major infrastructure projects.

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

Other current listed company directorships

Senex Energy Limited (2011 to date)
Genex Power Limited (2015 to date)

Former listed company directorships in last three years

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

Special responsibilities

Member of the Audit and Risk Management Committee and the Bushfire Litigation Committee.

Sally Farrier

Independent Non-executive Director (appointed 2014)

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

Experience and expertise

Ms Farrier is currently a Director of Meridian Energy Limited and a founding Director of Farrier Swier Consulting Pty Limited. Past directorships include Manidis Roberts Pty Limited, Hydro Tasmania and Western Power. In addition, Ms Farrier has served as a National Water Commissioner and as a member of the Victorian Water Trust Advisory Council.

Other current listed company directorships

Meridian Energy Limited (2012 to date) (New Zealand Stock Exchange Listed entity)

Former listed company directorships in last three years

None

Special responsibilities

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

Ho Tian Yee

Non-executive Director (appointed 2008)

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

Experience and expertise

Mr Ho is currently the Managing Director of Pacific Asset Management (S) Pte Ltd, and an investment advisor to Blue Edge Advisors Pte Ltd. Mr Ho was previously the General Manager and Managing Director of Bankers Trust Company, Singapore. He currently serves as a non-executive director of DBS Group Holdings Ltd, Singapore Power Limited and Mount Alvernia Hospital, and non-executive Chairman of Fullerton Funds Management Company Limited.

Other current listed company directorships

DBS Group Holdings Ltd (2011 to date) (SGX-ST listed entity)
DBS Bank Ltd (2011 to date) (SGX-ST listed entity)

Former listed company directorships in last three years

Singapore Exchange Ltd (1999 to 2013) (SGX-ST listed entity)

Special responsibilities

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

Peter Mason AM

Independent Non-executive Director (appointed 18 March 2016. Chairman from 11 May 2016)

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

Experience and expertise

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

Mr Mason was Chairman of AMP Limited from 2005 to May 2014 (Director from 2003), and Chairman of David Jones Limited from 2013 to 2014 (Director from 2007) and has been Chairman and a Director of a number of listed companies. Mr Mason has over 40 years' experience in investment banking. Mr Mason was a member of the Council of the University of New South Wales for 13 years. For 12 years he was a Director of the Children's Hospital in Sydney and Chairman of the Children's Hospital Fund for eight years. Mr Mason was appointed a Member of the Order of Australia for his contribution to the Children's Hospital.

Other current listed company directorships

Singapore Telecommunications Ltd (2010 to date) (SGX-ST listed entity)

Former listed company directorships in last three years

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

Special responsibilities

Chairman of the Board from 11 May 2016.

Our Board of Directors (continued)

Tina McMeckan

Independent Non-executive Director (appointed 2010)

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

Experience and expertise

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

Other current listed company directorships

None

Former listed company directorships in last three years

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

Special responsibilities

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

Robert Milliner

Independent Non-executive Director (appointed 23 July 2015)

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

Experience and expertise

Mr Milliner is a Senior Adviser, International Affairs at Wesfarmers Limited, Senior Adviser at UBS and Senior Adviser to the International Chamber of Commerce Secretary General. He is a Director of the Global Infrastructure Hub Ltd, Chairman of the Board of the Foundation for Young Australians and a Director of the Australian Charities Fund. In 2013 and 2014 he was the B20 Australia Sherpa and coordinated the international business community's recommendations to the 2014 G20.

From 2004 to 2011 he was Chief Executive Partner of law firm Mallesons Stephen Jaques (now King & Wood Mallesons) and retired from Mallesons in January 2012 after 28 years as a partner.

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Chairman of the Bushfire Litigation Committee and a member of the Audit and Risk Management Committee.

Sun Jianxing

Non-executive Director (appointed 2014)

Bachelor of Engineering, Northeast Dianli University, China

Experience and expertise

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

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Member of the Nomination Committee and the Remuneration Committee.

Antonio (Tony) Iannello

Independent Non-executive Director (ceased as a Director effective 23 July 2015)

Ian Renard AM

Independent Non-executive Director (ceased as a Director effective 23 July 2015)

Our Executive Leadership Team

The persons listed below were members of the Executive Leadership Team during the whole of the financial period and up to the date of this report.

Nino Ficca

Managing Director

Role

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

John Azaris

General Manager, Service Delivery

Bachelor of Electrical & Electronic Engineering, Swinburne Institute of Technology
Graduate Diploma in Digital Electronics, Swinburne Institute of Technology
Graduate Diploma in Business Management, Deakin University
Master of Business Administration, Deakin University
General Management Program, Harvard University, USA

Role

Mr Azaris manages the field services division that is responsible for all works undertaken on the electricity and gas networks. Mr Azaris also oversees the Network Operations Centre.

Experience and expertise

Mr Azaris began his career as an engineer with the Metropolitan Transport Authority before joining the State Electricity Commission of Victoria (SECV) in 1988. Through the 1990s, he held various engineering, operations, maintenance and management roles, before joining AusNet Services in 2005, heading up the human resources and communications functions.

Claire Hamilton

General Manager, Risk & Assurance

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

Role

Ms Hamilton oversees the risk management, internal audit, compliance, and physical and information security governance functions for AusNet Services.

Experience and expertise

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

Chad Hymas

General Manager, Strategy & Business Development

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

Role

Mr Hymas is responsible for coordinating the corporate strategy and business planning functions of AusNet Services, including transformation initiatives, innovation and business development opportunities across our regulated and contracted energy infrastructure businesses.

Experience and expertise

Mr Hymas has extensive strategy, operations and finance experience in the energy sector, having worked for TXU, SPI Electricity and AusNet Services since 2001. Having held numerous positions within AusNet Services, Mr Hymas was most recently Director of Transformation, leading a broad range of strategic initiatives in safety, process improvement and efficiency. Mr Hymas began his career as an accountant at Arthur Andersen, followed by various financial roles for Motorola Australia and New Zealand.

Our Executive Leadership Team (continued)

John Kelso

General Manager,
Select Solutions

Diploma of Business Management (Commerce), Deakin University
Master of Business Administration, Deakin University

Role

Mr Kelso is the General Manager of AusNet Services' commercial services business, Select Solutions, which provides specialist metering, asset intelligence and telecommunication solutions to the utility and infrastructure sectors.

Experience and expertise

Mr Kelso has more than 35 years' experience in the energy industry, having joined the State Electricity Commission of Victoria (SECV) in 1978. Mr Kelso has held senior management roles with TXU and Eastern Energy before joining AusNet Services in 2005 as Group Manager, Program Delivery before taking on his current role.

Geraldine Leslie

General Manager, People,
Safety & Customer

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

Role

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

Experience and expertise

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

Adam Newman

Chief Financial Officer

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

Role

Mr Newman is responsible for all key financial and financial reporting functions as well as procurement, investor relations, treasury, insurance, tax and enterprise program management office.

Experience and expertise

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

Alistair Parker

General Manager, Asset
Management

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

Role

Mr Parker is responsible for managing the planning, asset management design and regulation of AusNet Services' electricity transmission, distribution and gas distribution networks.

Experience and expertise

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

Susan Taylor

General Counsel &
Company Secretary

Bachelor of Laws, University of Melbourne
Bachelor of Commerce, University of Melbourne
Graduate Diploma in Corporations and Securities Law, University of Melbourne

Role

Ms Taylor manages the legal and company secretarial functions, ensuring the Group is compliant with regulatory and corporate governance obligations while providing strategic legal advice to management.

Experience and expertise

Prior to joining AusNet Services in 2008, Ms Taylor worked in the United States for five years where she was senior attorney-advisor for the US Federal Energy Regulatory Commission and in private practice at US law firms. Prior to leaving Australia, Ms Taylor was a partner of Freehills, where she played a leading role in the restructure of Victoria's electricity and gas industries, the creation of Australia's National Electricity Market, and the restructure of the electricity industries in several countries in the Asian-Pacific region. Ms Taylor is admitted to the High Court of Australia, the Victorian Supreme Court, the NSW Supreme Court and the WA Supreme Court. She is also admitted to the New York Bar.

Mario Tieppo

Chief Information Officer

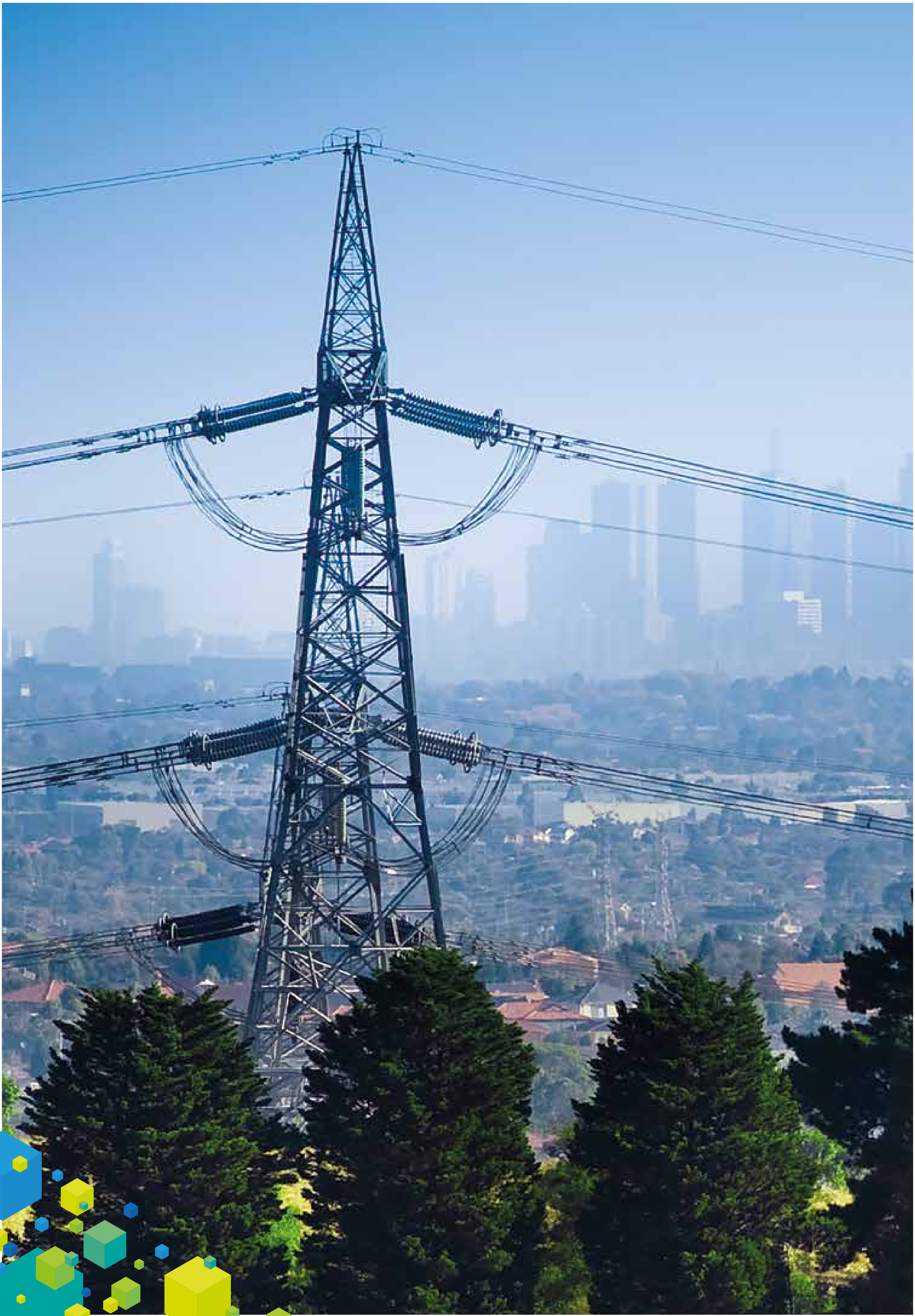
Bachelor of Business (Accounting), Philip Institute of TechnologyCertified Practicing Accountant (ASCPA)
Senior Member, Australian Computer Society

Role

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

Experience and expertise

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



Our strategy

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

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

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

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

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

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

> **lead network transformation** and embrace change

> **grow contracted energy infrastructure and services** by leveraging our core capabilities

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

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

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

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

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

Our Corporate Scorecard

Our FY2016 performance is summarised in the Group's corporate scorecard below, which provides an overview of annual results, measured against key performance indicators (KPIs) that drive our transformation journey.

The 'Review of operations' section that follows provides further detail of our financials.

Financial

Performance Measure	FY2016	FY2015
EBITDA ($M)	1,142.5	1,047.2
Return on equity (%) *	14.0	3.5
Maintain 'A' range credit metrics	'A' range	'A' range
Cash flow from operations ($M)	710.0	767.6
Select Solutions EBITDA ($M) **	22.3	23.2

Key achievements and challenges

EBITDA is up 9.1 per cent from higher revenues across all of our regulated networks as well as AMI rebates and asset write-offs recognised in the prior year.

Return on equity was significantly and positively impacted by the $163.1m of one-off tax benefits recognised during the year. Conversely, our cash flow from operations decreased by $57.6m principally due to tax payments in relation to the prior year s163AA and intra-group financing settlements.

Further details regarding our financial performance are contained in the 'Review of operations' section of this report.

Business & Asset

Performance Measure	FY2016	FY2015
USAIDI (electricity network reliability) ($M)	48.4	30.1
Capital efficiency of completing works program (%)	2.0	5.4
Metering program delivery – on time and budget	✓	✗
Enterprise Resource Planning (ERP) implementation – on time and budget, including benefits realisation	✓	✓

Key achievements and challenges

Three of the scorecard targets were achieved in this category, with the capital efficiency target only partially achieved.

Our networks earned $48.4m in network incentive payments, well above our $19.2m target, driven by the reduction in the frequency and duration of unplanned electricity outages.

While an overall capital efficiency of 2% was achieved, this target was negatively impacted by additional costs and scope changes for two major projects completed during the year.

The metering program is on schedule for completion in FY2017.

Our ERP benefits realisation is tracking to schedule following implementation in May 2015 with the replacement of almost two-thirds of key business applications. This will enable accurate and reliable information, support better decision-making and improve planning, reporting and customer outcomes.

Safety

Performance Measure	FY2016	FY2015
Recordable injury frequency rate (RIFR) (%)	6.91	6.70
HSEQ index achievement	60	80
F-factor scheme (# of fire start incidents)	120	182

Key achievements and challenges

Our Recordable Injury Frequency Rate (RIFR) was 6.91 incidents per million working hours, which represented a 3.1 per cent deterioration in performance on last year's results and above our internal target of 5.36.

The HSEQ Index measuring four elements (RIFR, near miss reporting, close out of corrective actions and injury severity) was not achieved with a RIFR deterioration and increase in the number of injuries involving more than 10 days of lost time.

The internal target of ground and asset fire start incidents (≤ 219) was achieved, with the actual number of incidents more than 54 per cent below the regulatory benchmark (F-factor) of 257 for the year. This performance was achieved predominantly through our significant safety enhancement programs.

People

Performance Measure	FY2016	FY2015
Voluntary turnover of talent (%)	3.6	4.8

Key achievements and challenges

This KPI measures two elements – general voluntary turnover and the resignation of those employees identified within our talent pool. Our target of less than 4.1 per cent was achieved, with a focus on employee development and retention in response to major change initiatives.

Customer

Performance Measure	FY2016	FY2015
Network customer index score	80	N/A

Key achievements and challenges

80 per cent of the targeted 100 Network Customer Index Score (NCIS) was achieved. In three of the four NCIS components, we reached our targets – we reduced cancelled planned outages by 3 per cent and improved customer effort score by 8 per cent. We significantly outperformed our target to reduce customer complaints by more than 10 per cent, by achieving an actual 32 per cent reduction.

Much of the improvement in these areas can be attributed to the positive effect our company-wide safety, efficiency, reliability and customer response improvement initiatives are having on network and customer service performance.

* Excludes the impact of hedge accounting ineffectiveness and de-designation.
** The Select Solutions EBITDA performance noted above is before the allocation of corporate overheads.

Review of operations

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

$M	FY2016	FY2015	Movement	%
Revenue	1,919.0	1,833.9	85.1	4.6
EBITDA	1,142.5	1,047.2	95.3	9.1
NPAT	489.3	22.6	466.7	n/m
Adjusted EBITDA [1,3]	1,142.5	1,079.7	62.8	5.8
Adjusted NPAT [2,3]	326.2	272.0	54.2	19.9

1. Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) excludes the recognition of a provision for AMI customer rebates of $32.5 million for the year ended 31 March 2015.
2. As well as the after-tax impact of the item listed for adjusted EBITDA above, the period ended 31 March 2016 adjusted NPAT also excludes one-off tax benefits of $163.1 million comprising of $135.0 million arising from the corporate restructure and $28.1 million arising from the settlement of the IP dispute with the Australian Taxation Office (ATO). The period ended 31 March 2015 excludes $142.6 million in income tax expense for the settlement with the ATO in relation to the intra-group financing audit as well as $84.1 million associated with the net exposure relating to the IP dispute with the ATO.
3. Adjusted EBITDA and Adjusted NPAT are non-IFRS measures that have not been subject to audit or review.

A summary of our revenues and results by operating segment for the financial year ended 31 March 2016 is set out on the following pages.

Electricity transmission business

	FY2016	FY2015	Movement	%
Segment revenue ($M)	625.8	619.8	6.0	1.0
Segment result – EBITDA ($M)	409.6	434.5	(24.9)	(5.7)
Capital expenditure ($M)	248.3	212.3	36.0	17.0

Our electricity transmission business experienced a 5.7 per cent decline in EBITDA on the back of a $30.9 million increase in operating expenses.

The increase in revenue largely resulted from the increase in easement tax pass-through, which is also reflected in our increased expenses. This has been partially offset by the negative price path in the Transmission Revenue Reset (TRR) Final Determination for the 2014-2017 period.

Easement tax represents approximately 50 per cent of total operating expenses for our electricity transmission business. Excluding the impact of easement tax (which is a revenue pass-through item), expenses increased by $23.0 million or 28.1 per cent compared to the prior year. This was due to a combination of factors, including:

> Increased legal and other administrative costs associated with the implementation of the corporate restructure, the Section 163AA dispute with the ATO and the preparation of the TRR submission;

> Higher labour operating expenses due to a combination of wage increases, higher short-term incentive payments, and a lower labour capitalisation rate arising from a changing mix of works; and

> The inclusion in FY2015 of a $1.1 million gain on the sale of land.

Capital expenditure in our electricity transmission business accelerated in the second half of the year and we reported 17.0 per cent year-on-year growth. The significant increase is due to the upgrade works at Brunswick terminal station, which increased $42.7 million from the prior year.

Electricity distribution business

	FY2016	FY2015	Movement	%
Segment revenue ($M)	963.6	879.6	84.0	9.5
Segment result – EBITDA ($M)	575.9	453.7	122.2	26.9
Volume (GWh)	7,662	7,361	301	4.1
Connections	691,378	679,213	12,165	1.8
Capital expenditure ($M)	467.3	486.9	(19.6)	(4.0)
Adjusted segment result ($M)[1]	575.9	486.2	89.7	18.4

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

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

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

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

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

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

> The prior year includes $60.6 million in metering charges relating to customer rebates ($32.5 million) and asset write-offs ($28.1 million); and

> The current year includes $10.0 million of costs relating to the 2014 bushfires at Yarram and Mickleham.

Excluding these items, operating expenses for our electricity distribution business increased $12.4 million or 3.4 per cent due to wage increases and higher short-term incentive payments, partially offset by a reduction in service level payments.

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

Metering program update

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

Gas distribution business

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

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

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

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

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

Select Solutions business

	FY2016	FY2015	Movement	%
Segment revenue ($M)	152.4	158.9	(6.5)	(4.1)
Segment result – EBITDA ($M)	20.3	17.0	3.3	19.4

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

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

Select Solutions has improved its result in the second half of FY2016, delivering an EBITDA of $14.9 million during this period. The first half result was negatively impacted by higher mobilisation costs on new contracts and cost overruns on other contracts, both of which have not continued in the second half.

Review of operations (continued)

Financial position

Total equity of the Group was $3,557.8 million as at 31 March 2016, an increase of $309.0 million compared to the previous financial year. Significantly impacting total equity during the year was the recognition of a net $163.1 million of one-off tax benefits associated with the corporate restructure and final settlement of the IP dispute with the ATO.

Our current liabilities exceed current assets by $492.4 million at 31 March 2016. We have prepared the financial report on a going concern basis, which contemplates the continuity of normal trading operations. The Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2016, the Group has available a total of $875.0 million of undrawn but committed bank debt facilities and $441.4 million of cash.

Non-current assets increased by $353.8 million compared to prior year, largely due to the $822.7 million of capital expenditure invested into the asset base offset by the depreciation of our assets.

Non-current liabilities decreased by $428.8 million due to the significant repayment of debt during the year, partially funded by the significant cash balances from the prior year.

Capital management

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

At present, we are unable to raise further equity (other than a dividend reinvestment plan) unless approved at a general meeting by shareholders. In the event that further funding is required, we will evaluate our options and proceed in a way that supports our targeted credit metrics.

Debt raising

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

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

> an inaugural SGD 200 million 60-year hybrid security issue in the form of non-convertible subordinated notes to raise approximately $200 million in March 2016;

> a USD 375 million 60-year hybrid security issue in the form of non-convertible subordinated notes to raise approximately $505 million in March 2016; and

> a HKD 875 million 12-year bond issue to raise approximately $148 million in March 2016.

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

Dividends

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

	Final 2015 dividend		Interim 2016 dividend	
	Cents per share	Total dividend $M	Cents per share	Total dividend $M
Fully franked dividend	2.508	86.9	4.265	149.6
Unfranked dividend	1.672	58.0	–	–
	4.180	**144.9**	**4.265**	**149.6**

Since the end of the financial year, the Directors have approved a final dividend for FY2016 of $150.9 million (4.265 cents per share) to be paid on 22 June 2016. This dividend will be franked to 100 per cent.

Dividend Reinvestment Plan (DRP)

In relation to the final 2015 dividend paid on 26 June 2015, $57.7 million was utilised in the allotment of new shares issued under the DRP, representing a take up rate of approximately 40 per cent. In relation to the interim 2016 dividend paid on 24 December 2015, $41.9 million was utilised in the allotment of new shares issued under the DRP, representing a take up rate of approximately 28 per cent.

The DRP will be in operation for the final 2016 dividend at a two per cent discount to the average of the volume weighted average price.

Material risks and uncertainties

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

Metering program risks

Cost recovery

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

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

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

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

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

Electricity distribution licence

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

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

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

Regulatory risks

Price determinations

The energy industry in Australia is highly regulated. The regulated component of our revenues (approximately 87.8 per cent of total revenues for the year ended 31 March 2016) will be subject to periodic pricing resets by the AER, where revenue or prices will be determined for each of the networks for the specified regulatory period. We have no ability or flexibility to charge more for regulated services than is provided for under the relevant AER determination or approved access arrangement without regulatory approval. Regulatory control periods are generally five years, although with respect to the latest transmission revenue determination, the applicable pricing period was three years. The upcoming regulatory reset dates for our electricity transmission network, gas distribution network and electricity distribution network are 1 April 2017, 1 January 2018 and 1 January 2021, respectively, with the AER currently finalising the 2016-2020 EDPR determination.

Material risks and uncertainties (continued)

Regulatory risks (continued)

Price determinations (continued)

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

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

Regulatory reform

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

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

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

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

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

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

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

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

Information and communication technology risks

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

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

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

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

Network risks

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

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

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

Material risks and uncertainties (continued)

Funding and market risks

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

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

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

AusNet Services' constitution includes a restriction on the power to issue shares and other equity interests (Constitution Restriction). We are not permitted to issue shares or other equity interest without the prior approval of shareholders of AusNet Services. Shareholder approval for this purpose applies for 18 months.

On 26 October 2015 the shareholders of AusNet Services passed a resolution to permit the issue of shares pursuant to a DRP or any underwriting thereof at any time within 18 months of the date of the resolution. Actual issues of shares or other equity interests remain subject to the discretion of the Directors of AusNet Services and applicable laws and listing rules of the ASX.

Despite the resolution, there is a risk that our credit ratings could be adversely impacted if, in the future, we were restricted or prevented from raising equity as a result of the Constitution Restriction or otherwise. An adverse impact on the credit ratings of the Group could increase our borrowing costs and reduce our sources of liquidity.

Statutory disclosures

Meetings of Directors

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

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

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

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

> **Compliance Committee** – supports and advises the Board on compliance matters relevant to the AusNet Services (Finance) Trust and its Responsible Entity; The Compliance Committee was disbanded in November 2015 following de-registration of the managed investment scheme in September 2015 and the cancellation of AusNet Services' Australian Financial Services Licence; and

> **Issuing Committee** – advises the Board on the parameters, amount, price, and terms and conditions of our re-financing activities. The Issuing Committee did not meet during the year.

The number of meetings of the Board of Directors and of each standing Board committee held during the year ended 31 March 2016, and the number of meetings attended by each Director, are set out in the following table:

	Board of AusNet Services Ltd		Audit and Risk Management Committee		Nomination Committee		Remuneration Committee		Compliance Committee	
	A	B	A	B	A	B	A	B	A	B
Ng Kee Choe	19	19	**	**	2	2	**	**	**	**
Nino **Ficca**	19	19	**	**	**	**	**	**	**	**
Ralph **Craven**	18	19	6	6	**	**	**	**	2	2
Sally **Farrier**	18	19	6	6	1	1	5	5	2	2
Ho Tian Yee	19	19	3	3	2	2	7	8	**	**
Tony **Iannello**[1]	7	7	2	2	1	1	**	**	**	**
Peter **Mason**[3]	1	1	**	**	**	**	**	**	**	**
Tina **McMeckan**	19	19	6	6	1	1	8	8	2	2
Robert **Milliner**[2]	11	12	5	5	**	**	**	**	**	**
Ian **Renard**[1]	7	7	**	**	1	1	3	3	**	**
Sun Jianxing	14	19	**	**	1	2	5	8	**	**

1 Mr Renard and Mr Iannello ceased as Directors effective 23 July 2015.
2 Mr Milliner was appointed effective 23 July 2015.
3 Mr Mason was appointed effective 18 March 2016.

A = Number of meetings attended
B = Number of meetings held during the time the Director held office
** = Not a member of the relevant committee

Statutory disclosures (continued)

Indemnification and insurance of officers and auditors

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

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

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

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

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

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

Non-audit services

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

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

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

> all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and

> none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act* is set out on page 62.

Environmental regulation and climate change

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

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

Significant changes in the state of affairs

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

Letter from the Chairman of the Remuneration Committee

Dear Shareholder,

On behalf of the Board, I am pleased to introduce our FY2016 remuneration report, for which we seek your support at our annual general meeting on 21 July 2016. For the first time, shareholders have the opportunity to review and vote on the remuneration report for the newly formed stand-alone listed entity, AusNet Services Ltd.

The redesign of the company's statutory annual report also provided the opportunity to refresh the FY2016 remuneration report, having regard to contemporary market practice for content and ease of interpretation. This refresh was undertaken partly in response to feedback received from investors and proxy advisors.

Key changes to the FY2016 report are as follows:

> the inclusion of this Remuneration Committee Chair letter;

> a new FY2016 remuneration summary table that describes fixed, short and long term incentive outcomes relating to FY2016;

> an illustrative representation of the link between our business strategy, company performance and variable remuneration outcomes for FY2016;

> a remuneration governance section, including the Board approved remuneration principles;

> the inclusion of tables and related commentary to show the FY2016 Short-Term Incentive (STI) Key Performance Indicator (KPI) performance headings, weightings and outcomes reported through the use of 'traffic lights' rather than actual data; and

> general improvement to the layout and format of remuneration data, including the use of tables and charts, to reduce text and improve readability.

FY2016 results and payments

The Board is strongly of the view that all payments made to executive KMP must be in line with shareholder returns in any given year. When strong financial performance is achieved, shareholders and employees should benefit and if financial performance is weaker this should also be reflected in variable remuneration outcomes.

In that context, I draw your attention to the following concerning the FY2016 performance and outcomes:

> Total remuneration outcomes for executive KMP for FY2016 are significantly higher than FY2015 largely due to the company's improved financial and business performance that is directly recognised in short and long term variable remuneration payments.

> In FY2015, company profitability and executive KMP variable remuneration were negatively impacted by one-off items related to various tax matters. Conversely, FY2016 has been positively influenced by, amongst other things, the impact of the 2015 corporate restructure.

> In addition to the strong outcomes on financial performance measures, there was above target performance for most non-financial KPIs. This included progress on implementing a company-wide ERP and strong operational performance across the transmission, distribution and gas networks.

> The Remuneration Committee and Board are satisfied that all FY2016 payments made to executive KMP were appropriate in recognition of their contribution to the achievement of these results.

> In October 2015 the Remuneration Committee commissioned a senior executive benchmarking report from its appointed remuneration advisor, Ernst & Young (EY). This report highlighted potential issues in the market alignment of remuneration for some senior executives. As a result, the Committee is undertaking a deeper assessment to determine whether any future remuneration adjustments should occur.

FY2016 decisions

At the company's 2015 Annual General Meeting, the former Chair of the Remuneration Committee advised that the Board was contemplating the possible introduction of a deferred short-term incentive scheme. While further review was undertaken on these matters over the past year, the Remuneration Committee agreed to defer any further consideration on this matter, pending a more fundamental review of short-term and long-term incentive plan design. The rationale for such a review is to ensure that these remain 'fit for purpose' for our current strategic and business needs.

During FY2016, we also made some adjustments to Non-executive Director remuneration following a detailed market benchmarking exercise. All fee adjustments occurred within the shareholder approved fee cap.

2015 Annual General Meeting

Shareholders will be aware that the remuneration report presented in 2015 in respect of the former Stapled Group failed to receive more than the requisite 75 per cent support from shareholders. Although this is not applicable to the company, the views of our shareholders, as expressed at last year's Annual General Meeting and in subsequent meetings with a number of shareholders, have been taken into consideration and we have worked to address these views throughout the year.

As Chair of the Board's Remuneration Committee, I commend the FY2016 remuneration report to you.

Tina McMeckan

Tina McMeckan
Chair, Remuneration Committee

Introduction to the remuneration report

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

The remuneration report details the remuneration arrangements for KMP. KMP are those persons who have authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director of AusNet Services Ltd.

Details of key management personnel

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

Name	Position
Ng Kee Choe	Non-executive Chairman
Nino **Ficca**	Managing Director
Ralph **Craven**	Non-executive Director
Sally **Farrier**	Non-executive Director
Ho Tian Yee	Non-executive Director
Tony **Iannello**	Non-executive Director (ceased as a Director 23 July 2015)
Peter **Mason** [1]	Non-executive Director (appointed 18 March 2016)
Tina **McMeckan**	Non-executive Director
Robert **Milliner**	Non-executive Director (appointed 23 July 2015)
Ian **Renard**	Non-executive Director (ceased as a Director 23 July 2015)
Sun Jianxing	Non-executive Director

1. Mr Mason will succeed Mr Ng as our new Chairman from 11 May 2016.

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

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

Our performance

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

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

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

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

FY2016 remuneration summary

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

Fixed remuneration	**Fixed Remuneration increases** Overall, executive KMP fixed remuneration increases ranged between 3.0 per cent and 4.5 per cent effective 1 April 2015. No further adjustments to fixed remuneration were made in the reporting period.
Managing Director remuneration	**Changes in Managing Director's Remuneration** The Managing Director's fixed remuneration increased by 4.0 per cent to $1,086,800 effective 1 April 2015. The Managing Director's FY2016 STI performance resulted in a 57.8 per cent STI payment representing 115.7 per cent of his overall target STI. In addition, the Managing Director's 2013 LTIP award vested at 104.9 per cent which also equates to 104.9 per cent of his overall LTI target. Total remuneration levels for the Managing Director thus increased from $1.695 million to $2.664 million.
Short-term incentive	**Increased STI payments** The FY2016 STI corporate scorecard achieved 127.1 per cent of target performance, up from 56.2 per cent in FY2015. The FY2016 Select Solutions scorecard (applicable only to Mr Kelso) achieved 56.7 per cent of target performance (FY2015: 68.1 per cent). This resulted in higher STI payments for executive KMP. Taking into account assessment of personal performance and excluding the impact of the executive retention plan, other executive KMP (excluding the Managing Director) average STI payments were 43.5 per cent of Fixed Annual Remuneration compared to 18.7 per cent in FY2015.
Long-term incentive	Total Shareholder Return (TSR) performance was above target but below maximum vesting and the Earnings Per Share (EPS) measure achieved an outcome resulting in maximum vesting. Overall, this resulted in a vesting of 120.3 per cent of target for the 2013 tranche. The Managing Director's LTI measures included additional components of Return on Invested Capital (ROIC) and Interest Cover Ratio (ICR). As set out above, the Managing Director's LTI vested at 104.9 per cent of target.
Non-executive Director fees	**Increases in Base and Committee Fees** Following a review of the existing Non-executive Director fees, the Board resolved to increase base Director fees in July 2015, which appear on page 58 of this report.

FY2016 remuneration summary (continued)

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

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

* ROIC and ICR measures only apply to the Managing Director.
** The corporate KPIs for Mr Kelso include a blended mix of the corporate scorecard and Select Solutions scorecard. Refer to the 'Remuneration elements' section of this report for further details.

Remuneration governance

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

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

Executive KMP remuneration structure

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

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

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

Executive KMP remuneration structure (continued)

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

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

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

Remuneration elements

Fixed annual remuneration

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

Variable remuneration framework

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

STI plan

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

> the extent to which the company has achieved or outperformed the corporate KPIs; and

> the extent to which the individual has achieved or outperformed their respective individual KPIs.

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

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

Remuneration elements (continued)

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

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

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

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

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

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

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

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

Executive Retention Plans – FY2016 and FY2017

In the interests of retaining key personnel during a period of change and transformation in the industry, and on the recommendation of the Managing Director, the Board elected to invite several KMP to participate in an executive retention plan. In issuing these invitations, the Board recognised the participants' contributions in ensuring the long-term success of the Group and the need to retain their skills and experience.

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

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

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

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

LTI plan

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

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

Remuneration elements (continued)

Key design aspects of the LTI plan are outlined below:

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

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

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

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

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

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

2013 and 2014 LTI grants

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

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

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

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

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

Clawback arrangements

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

Remuneration and other terms of employment

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

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

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

FY2016 business result and remuneration outcomes

Key management personnel – STI

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

FY2016 corporate STI scorecard — **FY2016 performance outcomes**

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

FY2016 Select Solutions STI scorecard — **FY2016 performance outcomes**

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

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

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

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

Key management personnel – LTI

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

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

FY2016 business result and remuneration outcomes (continued)

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

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

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

Total remuneration for executive key management personnel

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

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

> In relation to some KMP, the STI for FY2016 includes additional targeted executive retention payments.

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

		Short-term			Post-employment	Equity-based payments [3]	Other long-term benefits [4,5]	Total
	FY	Cash salary and fees [5]	STI [1]	Other short-term benefits [2,5]	Super-annuation			
Nino **Ficca**	2016	905,478	628,502	85,778	104,792	880,542	58,646	2,663,738
	2015	819,097	234,916	85,219	99,845	393,534	62,108	1,694,719
John **Azaris**	2016	324,109	246,854	39,085	45,350	188,860	17,073	861,331
	2015	317,182	74,634	33,650	43,378	98,514	19,830	587,188
Chad **Hymas**	2016	277,528	264,817	33,161	25,096	144,717	12,248	757,567
	2015	277,283	60,763	35,163	25,000	83,275	13,538	495,022
John **Kelso**	2016	291,424	92,579	35,982	34,536	172,048	12,487	639,056
	2015	315,488	84,470	35,247	33,402	95,168	27,805	591,580
Adam **Newman**	2016	604,228	528,356	58,142	25,096	298,471	18,860	1,533,153
	2015	586,686	144,659	57,887	25,000	183,324	16,847	1,014,403
Alistair **Parker**	2016	366,576	265,611	44,922	24,176	179,302	12,739	893,326
	2015	323,343	76,393	34,868	25,000	102,407	12,074	574,085
Mario **Tieppo**	2016	374,521	179,770	38,797	25,096	143,699	115,146	877,029
	2015	369,253	89,021	38,694	25,000	140,653	9,956	672,577
Total executive KMP	**2016**	**3,143,864**	**2,206,489**	**335,867**	**284,142**	**2,007,639**	**247,199**	**8,225,200**
	2015	**3,008,332**	**764,856**	**320,728**	**276,625**	**1,096,875**	**162,158**	**5,629,574**

1. FY2016 *STI* includes amounts in respect of performance for the year ended 31 March 2016 as well as FY2016 amounts payable under the executive retention plan. These amounts have been approved and will be payable in June 2016.
2. *Other short-term benefits* include car parking benefits and the accrual of annual leave entitlements. The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.
3. As the performance period over which the LTI awards vest is three years, the amount included in *Equity-based payments* is one-third of the amount estimated to be payable at the end of the performance period for each outstanding award. This estimated amount is based on certain assumptions regarding the achievement of performance targets, which are reviewed and adjusted annually. Any adjustments to previously recognised amounts, both positive and negative, are included in the current year. The actual amounts paid under these awards will not be known until the end of the performance period.
4. *Other long-term benefits* include the accrual of long service leave entitlements. For Mr Tieppo it also includes a pro-rata accrual of his estimated executive retention plan to be assessed and payable in FY2017.
5. The above table represents the accounting value of KMP remuneration, calculated in accordance with accounting standards. As a result, annual leave and long service leave entitlements are recognised as remuneration when they accrue rather than when they are taken. This has the impact of reducing the cash salary and fees remuneration disclosed in the table above when these leave entitlements are ultimately taken by the KMP. In addition, any changes to the value of leave entitlements (for example, because of changes in FAR or long service leave entitlements not vesting) are recognised as remuneration, either positive or negative, in the year that the change occurs. These accounting adjustments to remuneration values are reflected in the *Cash salary and fees, Other short-term benefits* and *Other long-term benefits* disclosed in the table above.

Non-executive Directors (NEDs)

NED fee element	Commentary
Fees	The remuneration of Non-executive Directors consists of Directors' fees and committee fees. The Board's policy has been that fee levels are set having regard to independent performance advice and fees paid by comparable companies, and that fees paid are not linked to the performance of AusNet Services in order to maintain objectivity and independence. Following a comprehensive market review of existing Non-executive Director fees payable, fees payable to Directors were found to be substantially below market. After considering the findings of this review, the Board resolved to increase fees from 23 July 2015 as set out in the table below. Prior to this increase, the level of fees paid had not been altered since April 2013. In accordance with the constitution of AusNet Services Ltd, Non-executive Directors may also be paid additional fees for special duties or exertions.
Total fee pool	Non-executive Directors are entitled to such remuneration for their services as the Board decides, but the total amount provided to all Non-executive Directors (including any additional fees for special duties or exertions) must not exceed in aggregate in any financial year the amount approved by shareholders in a general meeting. The shareholders approved a total remuneration pool for Non-executive Directors of $2,000,000 per year at the Annual General Meeting held on 19 July 2012.
Equity based compensation	Non-executive Directors are not provided with any form of equity-based compensation.
Business related expenses	Non-executive Directors are entitled to be reimbursed for all business-related expenses, including travel on company business, as may be incurred in the discharge of their duties.
Retirement benefits	Non-executive Directors are not provided with any form of retirement benefit. Fees paid are inclusive of superannuation contributions made on behalf of the Non-executive Directors in accordance with our statutory superannuation obligations.
Review of fee levels and approach to Non-executive Director fees	Each year, the Remuneration Committee reviews the fees payable to Non-executive Directors, taking into account market rates and the time commitment and responsibilities involved in carrying out their duties. The Board will continue to review its approach to Non-executive Director remuneration to ensure it remains in line with general industry practice and principles of good corporate governance.

The annual fees payable to Non-executive Directors of AusNet Services and approved by the Board (inclusive of statutory superannuation) for the financial year ended 31 March 2016 are set out in the table below. It is not possible to allocate fees to individual entities within the AusNet Services Group.

	Chair fee[1]		Member fee	
Role[2]	**up to 23 July 2015**	**from 24 July 2015**	**up to 23 July 2015**	**from 24 July 2015**
Board	$330,000	$390,000	$121,000	$165,000
Audit and Risk Management Committee	$30,000	$40,000	$18,000	$20,000
Remuneration Committee	$24,000	$35,000	$12,000	$17,500
Issuing Committee	included in base fee	included in base fee	$12,000	$15,000
Compliance Committee [3]	$21,600	Committee abolished	$12,000	Committee abolished
Nomination Committee	included in base fee	included in base fee	$12,000	included in base fee

1. The Board Chairman is currently Chairman of the Nomination and Issuing Committees. As his Board fee is all-inclusive, no additional Nomination or Issuing Committee Chairman's fee is currently paid.
2. In addition to the fees noted above, Non-executive Directors may also be paid fees for special duties or exertions.
3. Compliance Committee abolished in November 2015 following cancellation of the Australian Financial Services Licence. No fees were paid from 24 July 2015.

Total remuneration for Non-executive Directors

Non-executive Directors	FY	Short-term: Cash salary and fees	Short-term: Other short-term benefits[1]	Post-employment: Super-annuation[2]	Total
Ng Kee Choe (Chairman)	2016	347,654	–	23,482	371,136
	2015	301,542	–	28,458	330,000
Ralph **Craven** [3]	2016	188,869	–	17,942	206,811
	2015	157,704	–	14,896	172,600
Jeremy **Davis** [7]	2015	38,059	–	3,536	41,595
Sally **Farrier** [3]	2016	187,633	–	17,825	205,458
	2015	137,978	–	13,022	151,000
Eric **Gwee** [7]	2015	45,186	–	–	45,186
Ho Tian Yee	2016	176,869	–	16,803	193,672
	2015	143,461	–	13,539	157,000
Tony **Iannello** [3,4]	2016	72,163	–	6,856	79,019
	2015	179,635	–	16,965	196,600
Peter **Mason** [5]	2016	5,780	–	549	6,329
Tina **McMeckan** [3]	2016	215,094	–	19,038	234,132
	2015	157,716	–	14,884	172,600
Robert **Milliner** [3,6]	2016	134,739	–	12,800	147,539
Ian **Renard** [3,4]	2016	57,863	–	5,497	63,360
	2015	176,338	–	16,662	193,000
Sun Jianxing	2016	155,900	–	14,810	170,710
	2015	132,496	–	12,504	145,000
Total NEDs	**2016**	**1,542,564**	**–**	**135,602**	**1,678,166**
	2015	**1,470,115**	**–**	**134,466**	**1,604,581**

1. The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.
2. Superannuation contributions made on behalf of Non-executive Directors to satisfy our obligations under applicable Superannuation Guarantee legislation. This does not include any salary sacrifice or employee contributions which are included under *Cash salary and fees*.
3. Received exertion payments for the year ended 31 March 2016 in relation to additional services provided.
4. Mr Iannello and Mr Renard ceased as Non-executive Directors effective 23 July 2015.
5. Mr Mason was appointed as a Non-executive Director effective 18 March 2016.
6. Mr Milliner was appointed as a Non-executive Director effective 23 July 2015.
7. Mr Davis and Mr Gwee ceased as Non-executive Directors effective 17 July 2014.

Shareholdings of KMP

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

Name	Number of stapled securities at 1 April 2015	Granted during the year as compensation	Acquisitions / (disposal)	Number of shares at 31 March 2016
Non-executive Directors				
Ng Kee Choe [1]	195,883	–	5,761	201,644
Ralph **Craven**	–	–	–	–
Sally **Farrier**	–	–	–	–
Ho Tian Yee	–	–	–	–
Tony **Iannello** [7]	190,976	–	–	190,976
Peter **Mason**	–	–	–	–
Tina **McMeckan** [2]	90,000	–	–	90,000
Robert **Milliner**	–	–	–	–
Ian **Renard** [7]	84,898	–	–	84,898
Sun Jianxing	–	–	–	–
Executive KMP				
Nino **Ficca** [3]	1,463,183	150,000	–	1,613,183
John **Azaris**	61,600	24,000	–	85,600
Chad **Hymas**	100,906	10,300	6,738	117,944
John **Kelso** [4]	108,964	21,920	526	131,410
Adam **Newman** [5]	50,000	26,190	–	76,190
Alistair **Parker**	52,871	12,000	3,556	68,427
Mario **Tieppo** [6]	4,000	10,300	–	14,300

1. Shares held by The Central Depository (Pte) Ltd. Mr Ng retires as a Director of AusNet Services on 11 May 2016.
2. Shares held by McMeckan Superannuation Pty Ltd as Trustee for the McMeckan Family Super Fund.
3. 319,850 shares held by immediate family members of Mr Ficca and 1,293,333 shares held by Mr and Mrs Ficca as Trustees for the Ficca Investment Trust.
4. 122,199 shares held by immediate family members of Mr Kelso.
5. Shares held by Newman Family Trust for Mr Newman.
6. Shares held by immediate family members of Mr Tieppo.
7. Mr Iannello and Mr Renard ceased as Directors on 23 July 2015. The number of shares disclosed at 31 March 2016 represents the number held at the date that Mr Iannello and Mr Renard ceased to be KMP.

Matters subsequent to the end of the financial year

Dividend

Since the end of the financial year, the Directors have approved a final dividend for 2016 of $150.9 million (4.265 cents per share) to be paid on 22 June 2016. This dividend will be franked to 100 per cent.

Rounding of amounts

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

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

Ng Kee Choe
Chairman

Singapore
11 May 2016

Nino Ficca
Managing Director

Melbourne
11 May 2016

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

To: the directors of AusNet Services Limited

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

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

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

KPMG

KPMG

Paul J McDonald

Paul McDonald
Partner

Melbourne

11 May 2016

Consolidated income statement

For the year ended 31 March 2016

	Notes	2016 $M	2015 $M
Revenue	B.1	1,919.0	1,833.9
Use of system and associated charges		(98.3)	(97.7)
Easement and land tax		(116.5)	(108.1)
Employee benefits expenses		(229.8)	(195.5)
External maintenance and contractors' services		(101.6)	(102.0)
Materials		(39.1)	(54.9)
Information technology and communication costs		(44.9)	(33.4)
Operating lease rental expenses		(17.0)	(19.0)
Administrative expenses		(65.0)	(51.7)
Disposal of property, plant and equipment		(6.2)	(7.0)
Other costs		(58.1)	(56.8)
AMI customer rebates and asset write-off		-	(60.6)
Total expenses excluding depreciation, amortisation, interest and tax		**(776.5)**	**(786.7)**
Earnings before interest, tax, depreciation and amortisation		**1,142.5**	**1,047.2**
Depreciation and amortisation	C.1, C.2	(392.3)	(379.2)
Profit from operating activities		**750.2**	**668.0**
Finance income	D.4	23.0	26.7
Finance costs	D.4	(315.3)	(340.3)
Net finance costs		**(292.3)**	**(313.6)**
Profit before income tax		**457.9**	**354.4**
Income tax benefit/(expense)	B.4	31.4	(331.8)
Profit for the year		**489.3**	**22.6**
Basic and diluted earnings per share (cents per share)	B.2	13.95	0.66

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

Consolidated statement of comprehensive income

For the year ended 31 March 2016

	Notes	2016 $M	2015 $M
Profit for the year		489.3	22.6
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	F.2	33.9	(36.6)
Income tax on movement in defined benefit fund	B.4	(10.2)	11.0
		23.7	**(25.6)**
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		5.5	(19.5)
Income tax on movement in hedge reserve	B.4	(15.8)	5.9
		(10.3)	**(13.6)**
Other comprehensive income for the year, net of tax		13.4	(39.2)
Total comprehensive income for the year		**502.7**	**(16.6)**

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

Consolidated statement of financial position

As at 31 March 2016

	Notes	2016 $M	2015 $M
ASSETS			
Current assets			
Cash and cash equivalents		441.4	883.1
Receivables	B.3	198.5	476.4
Desalination licence receivable	C.3	12.5	12.5
Inventories		52.0	37.5
Derivative financial instruments	D.3	89.1	129.3
Other assets	B.3	28.5	24.3
Total current assets		**822.0**	**1,563.1**
Non-current assets			
Inventories		18.5	19.4
Property, plant and equipment	C.1	9,597.1	9,238.6
Intangible assets	C.2	561.2	496.2
Desalination licence receivable	C.3	198.4	207.2
Derivative financial instruments	D.3	476.3	535.2
Other assets		2.5	3.6
Total non-current assets		**10,854.0**	**10,500.2**
Total assets		**11,676.0**	**12,063.3**
LIABILITIES			
Current liabilities			
Payables and other liabilities	B.3	338.2	497.7
Provisions	B.3	110.6	122.3
Borrowings	D.2	843.5	776.7
Derivative financial instruments	D.3	18.8	46.6
Current tax payable		3.3	138.6
Total current liabilities		**1,314.4**	**1,581.9**
Non-current liabilities			
Deferred revenue		57.8	28.1
Provisions	B.3	51.7	78.5
Borrowings	D.2	6,054.2	6,439.4
Derivative financial instruments	D.3	174.3	209.1
Non-current tax payable		-	5.4
Deferred tax liabilities	B.4	465.8	472.1
Total non-current liabilities		**6,803.8**	**7,232.6**
Total liabilities		**8,118.2**	**8,814.5**
Net assets		**3,557.8**	**3,248.8**
EQUITY			
Contributed equity	D.5	5,057.3	3,456.6
Reserves		(1,529.4)	(19.2)
Retained profits		1,125.0	906.5
Other equity		(1,095.1)	(1,095.1)
Total equity		**3,557.8**	**3,248.8**

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

Consolidated statement of changes in equity

For the year ended 31 March 2016

	Notes	Contributed equity $M	Restructure reserve (i) $M
31 March 2016			
Balance as at 1 April 2015		3,456.6	–
Total comprehensive income for the year			
Profit for the year		–	–
Other comprehensive income		–	–
Total comprehensive income for the year		**–**	**–**
Transactions with owners, recorded directly in equity			
Dividends paid	D.6	–	–
Dividend Reinvestment Plan (net of transaction costs)	D.6	99.6	–
Share based payments reserve	F.3	–	–
Impact of corporate restructure		1,501.1	(1,501.1)
Total transactions with owners		**1,600.7**	**(1,501.1)**
Balance as at 31 March 2016		**5,057.3**	**(1,501.1)**
31 March 2015			
Balance as at 1 April 2014		3,364.9	–
Total comprehensive income for the year			
Profit for the year		–	–
Other comprehensive income		–	–
Total comprehensive income for the year		**–**	**–**
Transactions with owners, recorded directly in equity			
Distributions paid	D.6	(13.8)	–
Distribution Reinvestment Plan (net of transaction costs)	D.6	105.5	–
Total transactions with owners		**91.7**	**–**
Balance as at 31 March 2015		**3,456.6**	**–**

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

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

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

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

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

	Hedge reserve (ii) $M	Asset revaluation reserve (iii) $M	Share based payment reserve $M	Other equity component (iv) $M	Retained profits $M	Total equity $M
	(70.6)	51.4	–	(1,095.1)	906.5	3,248.8
	–	–	–	–	489.3	489.3
	(10.3)	–	–	–	23.7	13.4
	(10.3)	**–**	**–**	**–**	**513.0**	**502.7**
	–	–	–	–	(294.5)	(294.5)
	–	–	–	–	–	99.6
	–	–	1.2	–	–	1.2
	–	–	–	–	–	–
	–	**–**	**1.2**	**–**	**(294.5)**	**(193.7)**
	(80.9)	**51.4**	**1.2**	**(1,095.1)**	**1,125.0**	**3,557.8**
	(57.0)	51.4	–	(1,095.1)	1,180.4	3,444.6
	–	–	–	–	22.6	22.6
	(13.6)	–	–	–	(25.6)	(39.2)
	(13.6)	**–**	**–**	**–**	**(3.0)**	**(16.6)**
	–	–	–	–	(270.9)	(284.7)
	–	–	–	–	–	105.5
	–	**–**	**–**	**–**	**(270.9)**	**(179.2)**
	(70.6)	**51.4**	**–**	**(1,095.1)**	**906.5**	**3,248.8**

Consolidated statement of cash flows

For the year ended 31 March 2016

	Notes	2016 $M	2015 $M
Cash flows from operating activities			
Profit for the year		489.3	22.6
Income tax (benefit)/expense		(31.4)	331.8
Net finance costs (ii)		292.3	313.6
Depreciation and amortisation		392.3	379.2
Disposal of property, plant and equipment		6.2	7.0
Write-off of assets		–	28.1
Contributed assets		(15.9)	(20.1)
Net defined benefit expense		8.8	7.5
Decrease/(increase) in receivables and other operating assets		261.9	(210.0)
(Decrease)/increase in payables, provisions and other operating liabilities		(254.9)	304.1
		1,148.6	**1,163.8**
Payment of MSA termination fee (inclusive of goods and services tax)		–	(39.3)
Income tax paid (i)		(141.7)	(54.5)
Net interest paid		(296.9)	(302.4)
Net cash inflow from operating activities		**710.0**	**767.6**
Cash flows from investing activities			
Payments for property, plant and equipment (ii)		(692.9)	(800.5)
Proceeds from sale of property, plant and equipment		0.7	5.7
Payments for acquisition of a subsidiary (net of cash acquired)		–	(0.4)
Receipts from desalination licence receivable	C.3	8.8	8.8
Net cash outflow from investing activities		**(683.4)**	**(786.4)**
Cash flows from financing activities			
Dividends paid (iii)	D.6	(194.9)	(179.2)
Proceeds from borrowings		1,100.0	1,830.3
Repayment of borrowings		(1,373.4)	(1,159.0)
Net cash outflow from financing activities		**(468.3)**	**492.1**
Net (decrease)/increase in cash held		(441.7)	473.3
Cash and cash equivalents at the beginning of the year		883.1	409.8
Cash and cash equivalents at the end of the year		**441.4**	**883.1**

(i) 2016 includes $69.0 million tax paid in relation to the s.163AA dispute and a $25.0 million ATO settlement in relation to the stapled structure audit.

(ii) Net finance costs include a credit of $24.2 million (2015: $24.5 million) for capitalised finance charges which is included in payments for property, plant and equipment.

(iii) Amounts shown represent dividends paid of $294.5 million (2015: $284.7 million) offset by proceeds from the Distribution Reinvestment Plan of $99.6 million (2015: $105.6 million), less transaction costs.

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

Notes to the consolidated financial statements

Contents

Section A Overview

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

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

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

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

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

(a) Basis of preparation

The consolidated general purpose financial report, prepared by a for-profit entity and presented in Australian dollars, represents the consolidated financial statements of AusNet Services Ltd and its subsidiaries. The financial statements were approved by the Board of Directors on 11 May 2016.

The consolidated financial report represents a continuation of the combined financial statements of the previous Stapled Group. On 18 June 2015 we completed a corporate restructure under which the existing stapled entities became wholly owned by AusNet Services Ltd. This corporate restructure was accounted for as a corporate reorganisation, thereby requiring the new group's (the Group) financial statements to be prepared as if the restructure had always been in place (i.e. retrospective application). Further details are contained in Note E.1.

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 $492.4 million at 31 March 2016. The Group is, and is expected to continue, trading profitably, generating positive operating cash flows, and successfully refinancing maturing debt. In addition, at 31 March 2016 the Group has available a total of $775.0 million of undrawn but committed non-current bank debt facilities and $100.0 million of undrawn but committed current bank debt facilities and $441.4 million of cash;
- under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value; and
- with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Class Order 98/100 issued by the Australian Securities and Investments Commission.

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

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

(b) Critical accounting estimates and judgements

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

- B.3 – Working capital
- B.4 – Taxation
- C.1 – Property, plant and equipment
- C.4 – Impairment of non-current assets
- D.3 – Financial risk management
- F.2 – Defined benefit obligations

Section B **Operating our business**

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

Note B.1 Segment results

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

(a) Description of reportable segments

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

(i) Electricity distribution

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

(ii) Gas distribution

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

(iii) Electricity transmission

We own and manage the vast majority of the electricity transmission network in Victoria. Our electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power generators to electricity distributors around Victoria forming the backbone of the Victorian electricity network. We charge the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network.

The electricity transmission segment includes both regulated and unregulated electricity transmission assets and revenues. The electricity transmission segment does not purchase or sell electricity.

(iv) Select Solutions

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

(b) Reportable segment financial information

2016	Electricity distribution $M	Gas distribution $M	Electricity transmission $M	Select Solutions (ii) $M	Inter-segment eliminations $M	Consolidated $M
Regulated revenue	928.9	180.2	587.1	–	(11.6)	1,684.6
Unregulated transmission revenue	–	–	35.7	–	–	35.7
Customer contributions	31.0	5.0	–	–	–	36.0
Service revenue	–	–	–	134.6	–	134.6
Other revenue	3.7	3.6	3.0	17.8	–	28.1
Total segment revenue	**963.6**	**188.8**	**625.8**	**152.4**	**(11.6)**	**1,919.0**
Segment expense before depreciation and amortisation	(387.7)	(52.1)	(216.2)	(132.1)	11.6	(776.5)
Segment result – EBITDA (i)	**575.9**	**136.7**	**409.6**	**20.3**	**–**	**1,142.5**
Depreciation and amortisation	(229.3)	(55.9)	(100.0)	(7.1)	–	(392.3)
Net finance costs						(292.3)
Income tax expense						31.4
Profit for the year						**489.3**
Capital expenditure	467.3	92.7	248.3	14.4	–	822.7

2015	Electricity distribution $M	Gas distribution $M	Electricity transmission $M	Select Solutions (ii) $M	Inter-segment eliminations $M	Consolidated $M
Regulated revenue	839.0	174.1	583.9	–	(11.7)	1,585.3
Unregulated transmission revenue	–	–	33.9	–	–	33.9
Customer contributions	33.3	12.3	–	–	–	45.6
Service revenue	–	–	–	138.2	–	138.2
Other revenue	7.3	0.9	2.0	20.7	–	30.9
Total segment revenue	**879.6**	**187.3**	**619.8**	**158.9**	**(11.7)**	**1,833.9**
Segment expense before depreciation and amortisation	(425.9)	(45.3)	(185.3)	(141.9)	11.7	(786.7)
Segment result – EBITDA (i)	**453.7**	**142.0**	**434.5**	**17.0**	**–**	**1,047.2**
Depreciation and amortisation	(218.8)	(59.1)	(95.9)	(5.4)	–	(379.2)
Net finance costs						(313.6)
Income tax expense						(331.8)
Profit for the year						**22.6**
Capital expenditure	486.9	99.0	212.3	11.2	–	809.4

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

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

Note B.1 Segment results (continued)

(c) Notes to and forming part of segment information

(i) Regulated revenue

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

(ii) Unregulated transmission revenue

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

(iii) Customer contributions

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

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

(iv) Service revenue

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

(v) Other revenue

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

(vi) Allocation to segments

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

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

Note B.2 Earnings per share

(a) Basic earnings per share

		2016	2015
	Profit attributable to ordinary shareholders of AusNet Services ($M)	489.3	22.6
divided by	Weighted average number of shares (million)	3,507	3,427
equals	Earnings per share (cents)	**13.95**	**0.66**

(b) Diluted earnings per share

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

Note B.3 Working capital

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

Key estimates and judgements – Accrued revenue

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

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

	Assets		Liabilities	
	2016 $M	2015 $M	2016 $M	2015 $M
Accounts receivable/payable	32.1	36.0	(71.0)	(40.4)
Accrued revenue/accrued expenses	160.6	167.5	(170.0)	(108.5)
Related party receivables/payables	4.6	9.2	(21.6)	(12.6)
Customer deposits	–	–	(20.6)	(15.0)
Deferred revenue	–	–	(13.6)	(9.8)
Murrindindi bushfire settlement	–	260.9	–	(260.9)
Other receivables/payables	0.3	0.5	(4.4)	(9.2)
Interest receivables/payables	0.9	2.3	(37.0)	(41.3)
Total current receivables/payables	**198.5**	**476.4**	**(338.2)**	**(497.7)**
Current other assets	28.5	24.3	–	–
Current provisions	–	–	(110.6)	(122.3)
Working capital	**227.0**	**500.7**	**(448.8)**	**(620.0)**

Note B.3 Working capital (continued)

(a) Accounts receivable

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

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

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

The ageing of accounts receivable as at reporting date was:

	Gross 2016 $M	Allowance 2016 $M	Gross 2015 $M	Allowance 2015 $M
Not past due	18.3	–	25.9	–
0–30 days	8.2	–	6.2	–
31–60 days	0.8	–	2.7	–
61–90 days	1.4	–	0.7	–
Greater than 90 days	3.5	(0.1)	0.5	–
Total	**32.2**	**(0.1)**	**36.0**	**–**

Of those debts that are past due, the majority are receivable from high credit quality counterparties. Receivables relating to regulated revenue streams (which account for approximately 87.8 per cent of revenues) are owed by retailers and distributors in the industry. There are strict regulatory requirements regarding who can obtain a retail or distribution licence and the Essential Services Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. AEMO also has high prudential requirements for retailers who participate in the market. Retailers must provide guarantees as requested by AEMO to minimise the risk of exposure by other participants to any defaults.

(b) Trade and other payables

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

(c) Provisions

	Notes	2016 $M	2015 $M
Current provisions			
Employee benefits (i)		94.4	77.5
Sundry provisions (ii)		13.7	12.3
Redundancy provision		2.1	–
AMI customer rebates provision (iii)		0.4	32.5
Total current provisions		**110.6**	**122.3**
Non-current provisions			
Employee benefits (i)		7.4	8.0
Environmental provision (iv)		30.3	28.3
Make good provision		2.7	2.6
Defined benefit funds	F.2	11.3	39.6
Total non-current provisions		**51.7**	**78.5**
Total provisions		**162.3**	**200.8**

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

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

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

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

Note B.4 Taxation

Key estimates and judgements – Income taxes

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

(a) Effective tax rate reconciliation

	2016 $M	2015 $M
Profit before income tax	457.9	354.4
Tax at the Australian tax rate of 30.0% (2015: 30.0%)	137.4	106.3
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Impact of entry into new tax consolidated group (i)	(135.0)	–
ATO settlement – primary tax cash payment (ii)	–	24.6
ATO settlement – cancellation of tax losses (ii)	–	118.0
Net tax and interest on intellectual property dispute (iii)	(28.1)	84.1
Prior year under/(over) provisions	0.6	(2.4)
Sundry items	(6.3)	1.2
Income tax (benefit)/expense	**(31.4)**	**331.8**
Consists of:		
Current tax	0.4	151.4
Prior year (over)/under provision – current tax	0.5	(3.9)
Deferred tax	(32.4)	182.8
Prior year (over)/under provision – deferred tax	0.1	1.5
Income tax (benefit)/expense	**(31.4)**	**331.8**

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill. Both our current income tax and deferred tax are calculated using tax rates that have been enacted or substantively enacted at reporting date.

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

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

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

(ii) On 4 March 2015 we executed a binding Settlement Deed with the ATO regarding all matters concerning:

- making a primary tax payment of $23.5 million and an interest payment (deductible) of $1.5 million;
- cancelling $506.5 million of carried forward tax losses of which $393.2 million were previously recognised in the statement of financial position and as such have been written off; and
- ceasing to take interest deductions in respect of AusNet Services Finance Trust loans from 1 April 2014.

(iii) On 8 September 2015, we executed a binding Settlement Deed with the ATO to settle the dispute relating to intellectual property deductions claimed by us in the 1998 to 2010 tax years. As at 31 March 2015, we had recognised an $84.1 million tax charge in relation to the total disputed amounts. As a result of the settlement, $28.1 million of prior period tax expense has been credited to income tax expense.

(b) Current tax

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

(c) Deferred tax

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

	Deferred tax assets /(Deferred tax liabilities)				
2015	**1 April 2014 $M**	**Prior year under/overs $M**	**(Charged)/ credited to income statement $M**	**Charged/ (credited) to other comprehensive income $M**	**31 March 2015 $M**
Employee benefits	19.9	–	5.7	–	25.6
Other accruals and provisions	31.9	–	5.9	–	37.8
Intellectual property copyright	40.1	–	(40.1)	–	–
Derivative financial instruments and fair value adjustments on borrowings	31.1	–	1.3	5.9	38.3
Tax losses	316.0	–	(87.7)	–	228.3
Defined benefit funds	(0.2)	–	1.1	11.0	11.9
Intangibles	(4.8)	–	0.1	–	(4.7)
Desalination licence receivable	(5.7)	–	(4.4)	–	(10.1)
Property, plant and equipment	(729.6)	(1.5)	(65.3)	–	(796.4)
Other	(3.4)	–	0.6	–	(2.8)
Net deferred tax liabilities	**(304.7)**	**(1.5)**	**(182.8)**	**16.9**	**(472.1)**

Note B.4 Taxation (continued)

(c) Deferred tax (continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect at the reporting date to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and we intend to settle our tax assets and liabilities on a net basis.

(i) Tax consolidation

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

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

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

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

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

Section C **Investing in our business**

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

Note C.1 Property, plant and equipment

Key estimates and judgements – Useful life assessments

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

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

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

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

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

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

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

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

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

	Freehold land $M	Buildings $M	Easements $M
Useful life (years)	Indefinite	40 – 99	Indefinite
2015			
Carrying amount at 1 April 2014	253.8	229.1	1,218.8
Additions	–	–	–
Transfers	–	48.5	0.4
Write-off	–	–	–
Disposals	(2.6)	(0.4)	–
Depreciation expense	–	(9.0)	–
Carrying amount at 31 March 2015	**251.2**	**268.2**	**1,219.2**
Cost	251.2	328.5	1,219.2
Accumulated depreciation	–	(60.3)	–
Carrying amount at 31 March 2015	**251.2**	**268.2**	**1,219.2**

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

Transmission network $M	Electricity distribution network $M	Gas distribution network $M	Other plant and equipment $M	Capital work in progress $M	Total $M
15–70	5–70	15–80	3–12	n/a	
1,771.9	3,192.4	1,359.2	287.5	509.5	8,822.2
–	–	–	0.7	784.6	785.3
144.6	456.7	109.7	26.8	(786.7)	–
–	(20.6)	–	–	–	(20.6)
(2.5)	(3.1)	(2.6)	(1.7)	–	(12.9)
(74.3)	(144.5)	(37.7)	(69.9)	–	(335.4)
1,839.7	**3,480.9**	**1,428.6**	**243.4**	**507.4**	**9,238.6**
2,413.6	4,581.8	1,769.8	539.4	507.4	11,610.9
(573.9)	(1,100.9)	(341.2)	(296.0)	–	(2,372.3)
1,839.7	**3,480.9**	**1,428.6**	**243.4**	**507.4**	**9,238.6**

Note C.2 Intangible assets

	Distribution licences (i) $M	Goodwill (ii) $M	Software (iii) $M	Other intangible assets $M	Total $M
Useful life (years)	Indefinite	Indefinite	3–10	3–10	
Year ended 31 March 2016					
Carrying amount at 1 April 2015	354.5	35.8	103.3	2.6	496.2
Additions	–	–	108.5	–	108.5
Transfers	–	–	–	0.4	0.4
Amortisation expense	–	–	(43.4)	(0.5)	(43.9)
Carrying amount as at 31 March 2016	**354.5**	**35.8**	**168.4**	**2.5**	**561.2**
Cost	354.5	35.8	464.9	7.4	862.6
Accumulated amortisation	–	–	(296.5)	(4.9)	(301.4)
Carrying amount at 31 March 2016	**354.5**	**35.8**	**168.4**	**2.5**	**561.2**
Year ended 31 March 2015					
Carrying amount at 1 April 2014	354.5	36.5	122.1	1.8	514.9
Purchase price adjustments	–	(0.7)	–	1.5	0.8
Disposals	–	–	0.2	–	0.2
Additions	–	–	24.1	–	24.1
Amortisation expense	–	–	(43.1)	(0.7)	(43.8)
Carrying amount at 31 March 2015	**354.5**	**35.8**	**103.3**	**2.6**	**496.2**
Cost	354.5	35.8	356.4	7.0	753.7
Accumulated amortisation	–	–	(253.1)	(4.4)	(257.5)
Carrying amount as at 31 March 2015	**354.5**	**35.8**	**103.3**	**2.6**	**496.2**

(i) Distribution licences

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

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

> the licences have been issued in perpetuity provided we comply with certain licence requirements;

> we monitor our performance against those licence requirements and ensure that they are met; and

> we intend to, and are able to continue to, maintain the networks for the foreseeable future.

(ii) Goodwill

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

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

Goodwill is not amortised but is reviewed for impairment at least annually.

(iii) Software

Following the completion of several major software projects, we have reclassified software assets to intangible assets (previously property, plant and equipment). This change in accounting policy has resulted in the restatement of the 31 March 2015 statement of financial position, reducing the value of property, plant and equipment by $103.3 million and increasing intangible assets by the same amount. In addition, the useful life of software assets has been changed from 3 to 5 years to 3 to 10 years.

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

Note C.3 Desalination licence receivable

	2016 $M	2015 $M
Desalination licence receivable		
Current receivable	12.5	12.5
Non-current receivable	198.4	207.2
Total desalination receivable	**210.9**	**219.7**

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

The upfront payment of $235 million plus transaction costs of $1.2 million for the licence has been classified as a receivable. This receivable is interest bearing and $8.8 million (2015: $8.8 million) of the total cash flows received from the operator during the year has been allocated against this receivable balance. The monthly revenue payment received from the operator is fixed, with an annual adjustment for inflation. Any amounts not received from the operator, but which are past due, can be recovered by us from the Victorian State Government.

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

Note C.4 Impairment of non-current assets

At each reporting date we review the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. An impairment loss occurs when an asset's carrying amount exceeds its recoverable amount. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, we estimate the recoverable amount of the cash generating unit (CGU) to which the asset belongs. A CGU is the smallest group of assets that generate largely independent cash inflows.

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

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

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

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

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

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

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

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

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

	Cash flow projection period (i) Years	Post tax discount rate (ii) %	Terminal growth rate (iii) %	Carrying Value 2016 $M	Carrying Value 2015 $M
CGU					
Electricity distribution (distribution licence)	20	5.0	2.5	117.2	117.2
Gas distribution (distribution licence)	20	5.0	2.5	237.3	237.3
Asset Solutions business (goodwill)	5	10.1	2.5	11.8	11.8
Geomatic Technologies (goodwill)	5	12.5	2.5	23.7	23.7

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

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

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

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

Note C.5 Commitments

(a) Capital commitments

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

	2016 $M	2015 $M
Property, plant and equipment (i)	526.8	352.2

(i) Includes $116 million for purchase of Mortlake Terminal Station.

(b) Lease commitments

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

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

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

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

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

	2016 $M	2015 $M
Payable:		
Within one year	19.4	18.0
Later than one year, but no later than five years	46.4	56.1
Later than five years	10.3	15.8
	76.1	**89.9**
Representing:		
Non-cancellable operating leases	76.1	89.9

Section D Financing our business

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

Note D.1 Capital management

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

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

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

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

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

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

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

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

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

Note D.2 Borrowings

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

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

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

		Carrying Value		Face Value (i)	
	Maturity date	2016 $M	2015 $M	2016 $M	2015 $M
Current borrowings					
Commercial paper		–	94.6	–	95.0
Swiss franc (CHF) senior notes	Feb 2017	340.9	646.1	271.7	520.1
Bank debt facilities		–	36.0	–	36.2
US dollar (USD) senior notes	Sep – Dec 2016	502.6	–	484.5	–
Total current borrowings		**843.5**	**776.7**	**756.2**	**651.3**
Non-current borrowings					
US dollar (USD) senior notes		–	518.5	–	484.5
Bank debt facilities		–	472.1	–	474.8
Swiss franc (CHF) senior notes	2019	385.6	718.6	283.2	554.9
Domestic medium term notes	2017 – 2024	1,418.7	1,414.2	1,322.0	1,314.3
Pound sterling (GBP) senior notes	2018	514.1	540.9	537.5	537.5
Floating rate notes	2020	99.7	99.7	100.0	100.0
Euro (EUR) senior notes	2020 – 2027	2,202.2	2,076.1	2,078.3	2,078.3
Hong Kong dollar (HKD) senior notes	2020 – 2028	527.2	376.6	435.0	287.7
Japanese yen (JPY) senior notes	2024	62.0	55.9	62.6	62.6
Norwegian kroner (NOK) senior notes	2029	162.9	166.8	159.7	159.7
US dollar (USD) hybrid securities (ii)	2076	488.3	–	505.7	–
Singapore dollar (SGD) hybrid securities (ii)	2076	193.5	–	199.6	–
Total non-current borrowings		**6,054.2**	**6,439.4**	**5,683.6**	**6,054.3**
Total borrowings		**6,897.7**	**7,216.1**	**6,439.8**	**6,705.6**
less: cash and cash equivalents		441.4	883.1	441.4	883.1
Net debt		**6,456.3**	**6,333.0**	**5,998.4**	**5,822.5**

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

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

(a) Foreign currency translation

All foreign currency transactions including foreign currency borrowings, are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items denominated in foreign currencies, including foreign currency borrowings, are translated at the exchange rate existing at that date. Resultant exchange differences are recognised in the income statement for the year, except for exchange differences for qualifying cash flow hedges which are recognised in other comprehensive income.

The foreign currency risk associated with our foreign currency borrowings is hedged through the use of Cross-currency swaps. Refer to Note D.3.

Note D.2 Borrowings (continued)

(b) Fair values of financial instruments

We have a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings outlined above, the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 31 March 2016. The fair value of total borrowings as at 31 March 2016 was $7,546.8 million (2015: $7,817.7 million).

(c) Financial covenants

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

(d) Other bank guarantees

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The subsidiaries have guarantee facilities with a number of institutions amounting to $15.0 million, of which $4.9 million was provided to third parties at 31 March 2016 (2015: $4.7 million).

Note D.3 Financial risk management

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

> Interest rate risk – the risk that we suffer financial loss due to an adverse movement in interest rates on our borrowings or the impact changes in interest rates have on our regulated revenues.

> Currency risk – the risk that we suffer financial loss due to adverse exchange rate movements on our foreign currency denominated borrowings.

> Liquidity risk – this risk that an unforeseen event occurs which will result in us not being able to meet our payment obligations in an orderly manner.

> Credit risk – the risk that one or more of our counterparties will default on its contractual obligations resulting in financial loss to us and arises from our financial assets, comprising cash and cash equivalents, trade and other receivables and derivative financial instruments.

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

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

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

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

> The Authority Manual which sets out the approvals required for such things as investment of surplus funds, execution of hedging transactions, borrowings and issue of guarantees and indemnities;

> The Treasury Operations Manual which sets out the day to day Treasury front office processes such as cash management and the operations of the Treasury back office, such as settlement processes and bank account operations;

> The Refinancing and Hedging Strategy which sets out the refinancing and hedging strategies over the relevant financial period; and

> The AusNet Services Credit Metrics Policy which sets out target ranges for the key credit metrics that determine the Group's credit strength, such as the percentage of debt to the value of the R&CAB at balance date.

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

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

(a) Interest rate risk

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

The objective of hedging activities carried out by us in relation to interest rate risk is to minimise the exposure to changes in interest rates by aligning the actual cost of debt with the cost of debt assumed by the regulator. The exposure is managed by maintaining the percentage of fixed rate debt to total debt at a level between 90 per cent and 100 per cent for the relevant business. We therefore consider net interest rate exposure, after hedging activities, to be minimal for the Group. The percentage of fixed rate debt to total debt (on a net debt basis) as at 31 March 2016 was 99.8 per cent (2015: 98.5 per cent).

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

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

	2016 $M	2015 $M
Financial assets		
Fixed rate instruments	380.0	810.9
Floating rate instruments	50.0	–
Financial liabilities (i)		
Fixed rate instruments	(6,047.8)	(5,808.8)
Floating rate instruments	(391.9)	(896.7)

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

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

	Net profit after tax		Equity after tax (hedge reserve)	
	2016 $M	2015 $M	2016 $M	2015 $M
Increase in Australian interest rates with all other variables held constant	4.2	24.3	242.7	221.9
Decrease in Australian interest rates with all other variables held constant	(2.2)	(19.5)	(255.3)	(271.0)

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

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

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.

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

(i) Accounting for financial instruments

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

<table>
<tr><th></th><th>Fair value hedges</th><th>Cash flow hedges</th></tr>
<tr><td>Objective of the hedge</td><td>To mitigate the exposure to changes in fair value of certain borrowings. Fair value hedges are generally fixed rate designated for the terms of borrowings that fall outside of the price review periods for the regulated businesses.</td><td>To mitigate the variability in cash flows attributable to variable interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.</td></tr>
<tr><td>Treatment of changes in fair value of qualifying hedges</td><td>Recognised immediately in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.</td><td>The effective portion is recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in the hedge reserve are recycled in the income statement when the hedged item affects the income statement (generally when the forecast transaction that is hedged takes place). However, when the forecast transaction results in the recognition of a non-financial asset, the gains and losses are transferred from the hedge reserve and included in the measurement of the initial carrying amount of the asset.</td></tr>
<tr><td>Documentation of the hedge relationship</td><td colspan="2">To ensure derivative financial instruments qualify for hedge accounting we document, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as our risk management objectives and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.</td></tr>
<tr><td rowspan="2">Discontinuation of hedge accounting</td><td colspan="2">Hedge accounting is discontinued when the hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting.</td></tr>
<tr><td>After discontinuation, the previously hedged asset or liability is no longer revalued for changes in fair value.</td><td>At that time, any cumulative gain or loss existing in the hedge reserve remains in hedge reserve and is recognised when the forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedge reserve is immediately recognised in the income statement.</td></tr>
</table>

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

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

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

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

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

Note D.3 Financial risk management (continued)

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

(iii) Measurement and classification

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

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

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

2015	Interest rate swaps $M	Forward foreign currency contracts $M	Cross-currency swaps $M	Total net derivative financial instruments $M
Current assets	–	0.5	128.8	129.3
Non-current assets	135.5	–	399.7	535.2
Current liabilities	(46.5)	(0.1)	–	(46.6)
Non-current liabilities	(192.2)	–	(16.9)	(209.1)
Total derivative financial instruments	**(103.2)**	**0.4**	**511.6**	**408.8**
Consists of:				
> fair value hedges	94.1	–	229.6	323.7
> cash flow hedges	(197.3)	0.4	282.0	85.1
Total derivative financial instruments	**(103.2)**	**0.4**	**511.6**	**408.8**

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

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

Key estimates and judgements – Fair value of derivative financial instruments

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

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

The fair value of derivative financial instruments is determined using valuation techniques and available market observable data as well as market corroboration based on active quotes. These include industry standard interest rates, foreign exchange and currency basis yield curves sourced directly from Bloomberg. Appropriate transaction costs and risk premiums are included in the determination of net fair value.

(iv) Offsetting derivative financial instruments

Derivative assets and liabilities are presented on a gross basis. Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default. Notwithstanding that these financial assets and liabilities do not meet the criteria for being presented on a net basis, if these netting arrangements were applied to the derivative portfolio as at 31 March 2016, derivative assets and liabilities would be reduced by $172.7 million respectively (2015: $217.2 million). Refer to the below table:

2016	Gross amounts in the financial statements $M	Amounts subject to master netting arrangements $M	Net amount $M
Derivative financial assets	565.4	(172.7)	392.7
Derivative financial liabilities	(193.1)	172.7	(20.4)
	372.3	**–**	**372.3**
2015			
Derivative financial assets	664.5	(217.2)	447.3
Derivative financial liabilities	(255.7)	217.2	(38.5)
	408.8	**–**	**408.8**

Note D.3 Financial risk management (continued)

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

(v) Cash flow hedges

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

	Change in value of hedged item used to measure ineffectiveness (i) $M	Change in value of hedging instrument used to measure ineffectiveness (i) $M	Nominal amounts of hedging instruments (i) $M
Interest rate risk	(127.1)	149.1	11,108.4
Foreign currency risk – debt	47.0	(50.9)	2,238.0
Foreign currency risk – capital expenditure	1.3	(1.3)	67.7

(i) Nominal amounts represent the total principal in each hedging instrument (derivative) in cashflow hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both cashflow hedges and fair value hedges is $13,310.9 million.

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

	2016 $M	2015 $M
Opening balance of cash flow hedge reserve	(70.6)	(57.0)
Amounts recognised in other comprehensive income, net of income tax:		
Changes in fair value of cash flow hedges (excluding foreign currency spreads)	(69.6)	(64.3)
Amounts reclassified to interest expense for effective hedges	77.6	50.7
Changes in foreign currency basis spreads	(4.2)	–
Tax effect of derivatives step up	(14.1)	–
Total amounts recognised in other comprehensive income, net of income tax	**(10.3)**	**(13.6)**
Closing balance of cash flow hedge reserve	**(80.9)**	**(70.6)**

The following table summarises our cash flow hedges:

	2016 $M	2015 $M
Highly probable forecast asset purchase:		
Less than 1 year	(0.6)	(0.4)
1–2 years	(0.1)	–
2–5 years	(0.2)	–
	(0.9)	**(0.4)**
Borrowings:		
Less than 1 year	(78.9)	(34.2)
1–2 years	(43.0)	(78.4)
2–5 years	(56.1)	(84.4)
Greater than 5 years	(157.6)	(260.4)
	(335.6)	**(457.4)**

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

(vi) Fair value hedges

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

	Carrying amount of the hedged item $M	Accumulated amount of fair value adjustments on hedged items $M	Gain/(loss) on remeasurement of hedged item $M	Gain/(loss) on remeasurement of hedging instruments $M	Nominal amounts of hedging instruments (i) $M
AUD denominated borrowings	(1,518.4)	(100.2)	(5.0)	4.9	1,783.0
Foreign currency denominated borrowings	(5,379.3)	(381.1)	133.6	(137.3)	8,169.7

(i) Nominal amounts represent the total principal in each hedging instrument (derivative) in fair value hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both fair value hedges and cashflows total $13,310.9 million.

(d) Liquidity risk

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

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

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

(i) Contractual cash flows

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

Note D.3 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

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

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

Note D.3 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

2015	Notes	Principal at face value $M	Carrying amount $M
Financial assets			
Non-derivative financial assets			
Cash and cash equivalents		883.1	883.1
Accounts and other receivables	B.3	476.4	476.4
Desalination licence receivable	C.3	219.7	219.7
Derivative financial assets			
Interest rate swaps			135.5
Cross-currency swaps			528.5
Forward foreign currency contracts			0.5
> Inflow			
> Outflow			
			2,243.7
Financial liabilities			
Non-derivative financial liabilities			
Trade and other payables	B.3	472.9	472.9
Commercial paper		95.0	94.6
Bank debt facilities (*)		511.0	508.1
Domestic medium term notes		1,314.3	1,414.2
Floating rate notes		100.0	99.7
USD senior notes		484.5	518.5
GBP senior notes		537.5	540.9
CHF senior notes		1,075.1	1,364.7
HKD senior notes		287.7	376.6
JPY senior notes		62.6	55.9
EUR senior notes		2,078.3	2,076.1
NOK senior notes		159.7	166.8
Derivative financial liabilities			
Interest rate swaps			238.7
Cross-currency swaps			16.9
Forward foreign currency contracts			0.1
> Inflow			
> Outflow			
			7,944.7
Net cash outflow			

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

Total contractual cash flows $M	Less than 1 year $M	1–2 years $M	2–5 years $M	Greater than 5 years $M
883.1	883.1	–	–	–
476.4	476.4	–	–	–
386.7	25.9	21.6	61.4	277.8
160.8	49.8	31.6	61.7	17.7
139.9	120.8	71.3	16.0	(68.2)
6.5	6.1	0.2	0.2	–
(6.0)	(5.6)	(0.2)	(0.2)	–
2,047.4	**1,556.5**	**124.5**	**139.1**	**227.3**
472.9	472.9	–	–	–
95.0	95.0	–	–	–
514.5	514.5	–	–	–
1,789.5	75.2	75.3	819.1	819.9
119.5	3.7	3.4	112.4	–
543.2	30.3	512.9	–	–
625.8	34.7	34.7	556.4	–
1,398.0	666.5	347.2	384.3	–
489.6	13.1	13.1	157.9	305.5
61.9	0.7	0.8	2.3	58.1
2,365.1	43.5	43.4	130.2	2,148.0
234.2	5.9	5.8	17.5	205.0
279.9	107.0	63.8	39.1	70.0
355.2	19.9	18.1	71.6	245.6
(2.0)	(1.6)	(0.2)	(0.2)	–
2.1	1.7	0.2	0.2	–
9,344.4	**2,083.0**	**1,118.5**	**2,290.8**	**3,852.1**
(7,297.0)	**(526.5)**	**(994.0)**	**(2,151.7)**	**(3,624.8)**

Note D.3 Financial risk management (continued)

(d) Liquidity risk (continued)

(ii) Financing facilities

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

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

(e) Credit risk

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

We have adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults (refer to Note B.3). Our exposure and the credit ratings of our counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Revenues from a single customer, AEMO, in our electricity transmission segment, represents 26 per cent (2015: 27 per cent) of our total revenues. We are licensed to transmit electricity in Victoria, whereas AEMO is the provider of shared network services and the planner, authoriser, contractor and director of augmentation of the declared shared network in Victoria. A network agreement is in place between both parties whereby we receive network charges from AEMO for the use of our transmission network to transmit electricity to participants in the market. Due to the nature of this network agreement, we do not believe that there is any significant credit risk exposure on this customer. Therefore we consider the credit risk exposure to be minimal.

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

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. At balance date we had $430.0 million on term deposit and $454.0 million of cross currency and interest rate swaps with 'A' rated or higher Australian and international banks.

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

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

	2016 $M	2015 $M
Financial assets and other credit exposures		
Cross-currency swaps	437.7	547.1
USD interest rate swaps	7.8	15.6
AUD interest rate swaps	147.6	137.7

Note D.4 Net finance costs

	2016 $M	2015 $M
Finance income		
Interest income	9.7	12.8
Return on desalination licence receivable	13.3	13.9
Total finance income	**23.0**	**26.7**
Finance costs		
Interest expense	341.1	349.6
Other finance charges – cash	3.1	3.1
Other finance charges – non-cash	5.3	5.2
Loss/(gain) on fair value hedges	3.8	(3.6)
Loss on transactions not in a hedge relationship	1.1	–
(Gain)/loss on ineffective portion of cash flow hedges	(18.1)	8.1
Unwind of discount on provisions	2.3	2.4
Defined benefit net interest expense	0.9	–
Capitalised finance charges	(24.2)	(24.5)
Total finance costs	**315.3**	**340.3**
Net finance costs	**292.3**	**313.6**

Finance income comprises interest income on funds invested and the return on the desalination licence receivable (refer to Note C.3). Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

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

The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the average interest rate of 5.1 per cent (2015: 5.8 per cent) applicable to our outstanding borrowings at the end of the period.

Note D.5 Equity

	Notes	2016 Shares	2015 Shares
Share capital			
Ordinary shares – fully paid (million)	(a), (b)	3,537.6	3,466.9

(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.

Note D.5 Equity (continued)

(b) Movements in ordinary share capital

Date	Details	Issue price	Number of shares	$M
1 April 2015	Opening balance		3,466,913,009	3,456.6
18 June 2015	Impact of corporate restructure		–	1,501.1
26 June 2015	Dividend Reinvestment Plan	$1.38	41,801,443	57.7
24 December 2015	Dividend Reinvestment Plan	$1.45	28,920,698	41.9
31 March 2016	**Closing balance**		**3,537,635,150**	**5,057.3**
1 April 2014	Opening balance		3,386,607,080	3,364.9
27 June 2014	Distribution Reinvestment Plan	$1.33	38,637,082	51.4
27 June 2014	Return of capital		–	(13.8)
24 December 2014	Distribution Reinvestment Plan	$1.30	41,668,847	54.1
31 March 2015	**Closing balance**		**3,466,913,009**	**3,456.6**

Note D.6 Dividends

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

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

In relation to the dividends paid in the current financial year of $294.5 million (2015: $284.7 million), $99.6 million (2015: $105.6 million) less transaction costs was utilised in the allotment of new shares issued under the Dividend Reinvestment Plan (DRP).

The following distributions were approved and paid by AusNet Services to stapled securityholders during the previous financial year:

Distributions	Paid by	Date paid	Cents per security	Total distribution $M
Fully franked dividend	AusNet Services Transmission	27 June 2014	1.393	47.2
Interest income	AusNet Services Finance Trust	27 June 2014	2.379	80.6
Return of capital	AusNet Services Finance Trust	27 June 2014	0.408	13.8
Fully franked dividend	AusNet Services Transmission	24 December 2014	2.200	75.3
Interest income	AusNet Services Finance Trust	24 December 2014	1.980	67.8
Total distributions			**8.360**	**284.7**

(a) Franking account

	2016 $M	2015 $M
Franking credits available to shareholders for subsequent financial years	51.2	107.8

The above available amounts are based on the balance of the dividend franking account at year end adjusted for franking credits that will arise from the payment of current tax liabilities.

The ability to utilise the franking credits is dependent upon there being sufficient net assets for the payment of dividends, the dividend payment being fair and reasonable to shareholders, and the dividend payment not materially prejudicing our ability to pay our creditors.

Section E **Group Structure**

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

Note E.1 Corporate restructure

As a result of the corporate restructure, the financial statements are now presented as the consolidated group of AusNet Services Ltd and its subsidiaries. Amounts previously presented as equity balances in relation to non-controlling interest now form part of the Group's consolidated equity balances. The historical balances of non-controlling interest have been reallocated within equity as follows:

	1 April 2014 $M	31 March 2015 $M
Non-controlling interests as per Stapled Group financial statements	2,788.0	2,751.1
Reallocation of non-controlling interests in AusNet Services Ltd's financial statements		
Contributed equity	3,364.4	3,456.1
Reserves	51.4	51.5
Retained profits	467.3	338.6
Other equity	(1,095.1)	(1,095.1)
	2,788.0	**2,751.1**

The issuing of shares by AusNet Services Ltd in order to effect the corporate restructure was measured at the market capitalisation of AusNet Services stapled securities at the date of the restructure, resulting in the recognition of $4,957.7 million of contributed equity. The difference between this value and the pre-restructure contributed equity of the Stapled Group ($3,456.6 million) of $1,501.1 million is recognised as a restructure reserve.

The consolidated statement of financial position and consolidated statement of changes in equity have been adjusted to reflect these changes. There were no restatements of the consolidated income statement, consolidated statement of comprehensive income or consolidated statement of cash flows.

In November 2015, ASIC cancelled the AFSL held by AusNet Services (RE) Ltd as this is no longer required to be held following the 18 June 2015 restructure of the Group.

Note E.2 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:

Name of entity	Country of incorporation	Class of shares	Equity holding 2016 %	Equity holding 2015 %
AusNet Services Ltd (i)	**Australia**	**Ordinary**		
AusNet Services (Distribution) Ltd	Australia	Ordinary	100	100
AusNet Services (RE) Ltd	Australia	Ordinary	100	100
AusNet Distribution Group Pty Ltd	Australia	Ordinary	100	100
AusNet LDP (No.1) Ltd	UK	n/a	100	100
AusNet LDP (No.2) Ltd	UK	n/a	100	100
AusNet Holdings General Partner Pty Ltd	Australia	Ordinary	100	100
AusNet Holdings (Partnership) Ltd Partnership	Australia	n/a	100	100
AusNet Services Holdings Pty Ltd	Australia	Ordinary	100	100
AusNet Electricity Services Pty Ltd	Australia	Ordinary	100	100
AusNet Asset Services Pty Ltd	Australia	Ordinary	100	100
AusNet (No. 8) Pty Ltd	Australia	Ordinary	100	100
AusNet (No. 9) Pty Ltd	Australia	Ordinary	100	100
AusNet Gas Services Pty Ltd	Australia	Ordinary	100	100
Select Solutions Group Pty Ltd	Australia	Ordinary	100	100
AusNet Services (Transmission) Ltd	Australia	Ordinary	100	100
AusNet Transmission Group Pty Ltd	Australia	Ordinary	100	100
AusNet Finance Pty Ltd	Australia	Ordinary	100	100
Geomatic Holdings Pty Ltd	Australia	Ordinary	100	100
Geomatic Technologies Pty Ltd	Australia	Ordinary	100	100
AusNet Services Insurance Ltd	Guernsey	Ordinary	100	100
AusNet Services Finance Trust	Australia	Ordinary	100	100

(i) Prior to 18 June 2015, the equity of each of the subsidiaries was held by the previous stapled entities, being AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd, and AusNet Services Finance Trust.

Note E.3 Parent entity information

(a) Statement of financial position

	2016 $M	2015 (i) $M
Current assets	150.9	–
Non-current assets	5,067.8	–
Total assets	**5,218.7**	**–**
Current liabilities	–	–
Non-current liabilities	10.5	–
Total liabilities	**10.5**	**–**
Contributed equity	5,057.3	–
Retained profits	150.9	–
Total equity	**5,208.2**	**–**

(i) As a result of the corporate restructure a new head entity was formed (AusNet Services Ltd) and as such prior year balances are nil.

(b) Statement of comprehensive income

	2016 $M	2015 $M
Profit for the year	445.4	–
Total comprehensive income for the year	445.4	–

(c) Contingent liabilities

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

Note E.4 Related party transactions

(a) Major shareholders

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

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

(i) Long-term operational agreement with Jemena

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

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

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

Note E.4 Related party transactions (continued)

(b) Key management personnel

	2016 $	2015 $
Short-term employee benefits	7,228,784	5,564,031
Post-employment benefits	419,744	411,091
Equity-based payments	2,007,639	1,096,875
Other long-term benefits	247,199	162,158
	9,903,366	**7,234,155**

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

(c) Transactions with related parties

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

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

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

	2016 $'000	2015 $'000
Sales of goods and services		
Regulated revenue (i)	10,484	9,346
Excluded services revenue	28,604	53,582
Service revenue	79	366
Purchases of goods and services		
Flame logo fee	–	500
Other expenses	617	14,664
Property, plant and equipment	68,555	38,875
Distributions paid, net of DRP	99,399	91,392

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

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

	2016 $'000	2015 $'000
Current receivables (sale of goods and services)		
Other related parties (i)	4,554	9,255
Current payables and other liabilities (purchase of goods)		
Singapore Power entities	28	34
Other related parties	21,605	12,560

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

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

Section F Other disclosures

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

Note F.1 Remuneration of auditors

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

	2016 $'000	2015 $'000
Audit and review services		
Audit and review of financial statements	1,811	1,527
Audit of regulatory returns (i)	656	632
Total remuneration for audit services	**2,467**	**2,159**
Other services		
Other assurance, taxation and advisory services	241	547
Total remuneration for other services	**241**	**547**
Total remuneration of auditors	**2,708**	**2,706**

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

Note F.2 Defined benefit obligations

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

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

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

	2016 $M	2015 $M
Total amount included in the statement of financial position in respect of the defined benefit plans is as follows:		
Present value of defined benefit obligations	(298.0)	(338.5)
Fair value of plan assets	286.7	298.9
Net liability arising from defined benefit obligations	**(11.3)**	**(39.6)**
Amounts recognised in the income statement in respect of the defined benefit plans are as follows:		
Current service cost	8.8	7.5
Net interest cost on defined benefit obligation	0.9	–
Total	**9.7**	**7.5**
Remeasurement gains/(losses) recognised during the year in OCI	**33.9**	**(36.6)**

Note F.2 Defined benefit obligations (continued)

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

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

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

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

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

We expect to make contributions of $4.2 million to the defined benefit plans during the next financial year. The Target Funding method is used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level which is expected to result in the plans' assets equalling 105 per cent of the plans' liabilities within five years. The defined benefit superannuation plans expose us to additional actuarial, interest rate and market risk.

(a) Movement in defined benefit obligation

	2016 $M	2015 $M
Movements in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	338.5	248.0
Current service cost	8.8	7.5
Interest cost	8.8	11.4
Contributions by plan participants	2.6	2.7
Actuarial (gain)/loss	(43.7)	60.8
Benefits, taxes and premiums paid	(17.1)	(20.2)
Transfers in	0.1	28.3
Closing defined benefit obligations	**298.0**	**338.5**
Movements in the fair value of plan assets were as follows:		
Opening fair value of plan assets	298.9	248.6
Interest income	7.9	11.4
Actual return on fund assets less interest income	(9.8)	24.2
Contributions from the employer	4.1	4.8
Contributions by plan participants	2.6	2.7
Benefits, taxes and premiums paid	(17.1)	(20.2)
Transfers in	0.1	27.4
Closing fair value of plan assets	**286.7**	**298.9**

The actual return on plan assets was a loss of $1.9 million (2015: gain of $35.6 million).

(b) Analysis of plan assets

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

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

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

(c) Actuarial assumptions

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

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

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

(i) Change in discount rates for employee liabilities

From 30 June 2015, Australian entities are required to use corporate bond rates, rather than Government bond rates, to discount their post-employment benefits and other long-term employee liabilities. This is a change in accounting estimate and as such is applied prospectively. The impact of this change was not material to the profit and loss. However there was a $32.6 million ($22.8 million after tax) increase in the defined benefit obligation reflected in the other comprehensive income of the Group.

Key estimates and judgements – Defined benefit plans

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

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

Note F.2 Defined benefit obligations (continued)

(d) Sensitivity analysis

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

	Increase $M	Decrease $M
Defined benefit obligation		
Discount rate (0.5 per cent movement)	(14.9)	16.1
Expected salary increase rate (0.5 per cent movement)	11.9	(11.3)

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

(e) Defined contribution expense

During the year, we contributed $19.2m of defined contribution benefit to employees (2015: $17.4m).

Note F.3 Share-based payments

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

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

(a) Long term incentive plan

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

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

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

Plan	Period	Grant date	Vesting date	PRs granted	Value of PRs at grant date
LTIP 2016	1/4/15–31/3/18	1 April 2015	31 March 2018	3,768,821	$3,768,821

During the year 43,608 performance rights were forfeited/cancelled resulting in a balance at 31 March 2016 of 3,725,213. The fair value of each performance right is estimated on the grant date using the Black-Scholes model.

This model used the following inputs:

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

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

An expense of $1.2 million has been recognised for the year ended 31 March 2016 in relation to this equity-settled share-based payment.

Note F.4 Contingent liabilities and contingent assets

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

Note F.5 New accounting standards not yet adopted

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

> AASB 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and associated Interpretations. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The impact of this standard has yet to be quantified by the Group.

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

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

Note F.6 Events occurring after the balance sheet date

(a) Dividend

Since the end of the financial year, the Directors have approved a final dividend for 2016 of $150.9 million (4.265 cents per share), franked to 100%. The final dividend is expected to be paid on 22 June 2016.

(b) Other matters

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

(a) the operations in financial years subsequent to 31 March 2016 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 31 March 2016, of the Group.

Directors' declaration

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

(a) the financial statements and notes set out on pages 63 to 113, and the remuneration disclosures that are contained in the Remuneration report set out on pages 43 to 60 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:

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

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

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

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

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

Signed in accordance with a resolution of the Directors.

Ng Kee Choe
Chairman

Singapore
11 May 2016

Nino Ficca
Managing Director

Melbourne
11 May 2016

Independent auditor's report to the members of AusNet Services Limited

Report on the financial report

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

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In section A, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

Independence

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

Auditor's opinion

In our opinion:

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

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

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

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 43 to 60 of the directors' report for the year ended 31 March 2016. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

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

KPMG

KPMG

Paul J McDonald

Paul McDonald
Partner

Melbourne

11 May 2016

Shareholder information

The shareholder information set out below was compiled from AusNet Services' register of shareholders as at 20 May 2016.

Voting rights

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

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

Distribution of shares

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

Range	Total Holders	Shares	% of issued capital
1–1,000	1,498	867,877	0.02
1,001–5,000	3,928	11,061,363	0.31
5,001–10,000	2,344	17,902,927	0.51
10,001–100,000	4,912	135,457,375	3.83
100,001–9,999,999,999	299	3,372,345,608	95.33
Total	**12,981**	**3,537,635,150**	**100.00**

Unmarketable Parcels

	Minimum Parcel Size	Holders	Shares
Minimum $500.00 parcel at $1.57 per share	319	366	18,974

There is no current on-market buy-back.

Shareholders

Rank	Name	No. of shares held	Percentage of issued shares
1.	SINGAPORE POWER INTERNATIONAL PTE LTD	1,100,204,532	31.10
2.	STATE GRID INTERNATIONAL AUSTRALIA DEVELOPMENT COMPANY LIMITED	703,989,395	19.90
3.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	463,518,722	13.10
4.	J P MORGAN NOMINEES AUSTRALIA LIMITED	228,391,287	6.46
5.	CITICORP NOMINEES PTY LIMITED	178,336,177	5.04
6.	THE CENTRAL DEPOSITORY (PTE) LIMITED	131,660,631	3.72
7.	NATIONAL NOMINEES LIMITED	126,297,429	3.57
8.	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	87,285,603	2.47
9.	CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	56,471,917	1.60
10.	BNP PARIBAS NOMS PTY LTD <DRP>	49,985,193	1.41
11.	NEWECONOMY COM AU NOMINEES PTY LIMITED <SBL ACCOUNT>	27,347,000	0.77
12.	WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	27,147,921	0.77
13.	QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	20,586,619	0.58
14.	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	12,623,543	0.36
15.	BNP PARIBAS NOMINEES PTY LTD <JERSEY ABERDEEN AIF LTD DRP>	11,292,508	0.32
16.	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <DRP A/C>	8,640,696	0.24
17.	AMP LIFE LIMITED	7,824,243	0.22
18.	WOODROSS NOMINEES PTY LTD	7,523,689	0.21
19.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	5,640,518	0.16
20.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	5,535,951	0.16
Total: Top 20 holders of fully paid ordinary shares		**3,260,303,574**	**92.16**
Total Remaining Holders Balance		**277,331,576**	**7.84**

Substantial holders

The names of AusNet Services' substantial holders and the number of shares in which each has a relevant interest, as disclosed in substantial holding notices received by AusNet Services as at 20 May 2016, are listed below:

	No. of shares held	Voting power
Singapore Power International Pte Ltd and its associates	1,078,209,948	31.10%
State Grid International Development Limited and its associates	689,915,689	19.90%
Legg Mason, Inc and its associates	219,481,127	6.26%

Employee Incentive Scheme on-market purchases

Pursuant to AusNet Services' General Employee Exempt Share Plan 584,959 shares were purchased on-market during the reporting period at an average price per share of $1.49.

Company information

Financial calendar

21 July 2016
2016 Annual General Meeting

30 September 2016
2016/17 Financial Half Year end

18 November 2016
2016/17 Half Year Results announced*

31 March 2017
2016/17 Financial Year end

*Subject to confirmation

Annual General Meeting

The Annual General Meeting of AusNet Services will be held at 10:00am Thursday 21 July 2016. The location of the Annual General Meeting is:

Melbourne Convention & Exhibition Centre
Meeting Room 219
1 Convention Centre Place,
South Wharf, Victoria, Australia

Enquiries and information

AusNet Services' register of shares is maintained by Computershare Investor Services Pty Limited ("Computershare").

For enquiries about AusNet Services shares, a transfer of shares or dividends, contact:

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

GPO Box 2957
Melbourne, Victoria 3001 Australia

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

Facsimile: +61 3 94733 2500

For enquiries about AusNet Services, contact:

AusNet Services

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

Or write to:

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

Stock Exchange listing

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

Tax File Number ("TFN") information

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

Change of address or name

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

AusNet Services

AusNet Services Ltd (ABN 45 603 317 559)

Registered office

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006

Telephone: +61 3 9695 6000
Facsimile: +61 3 9695 6666

Company Secretary

Ms Susan Taylor

Auditor

KPMG
147 Collins Street
Melbourne, Victoria 3000

Telephone: +61 3 9288 5555
Facsimile: +61 3 9288 666

AusNet Services

Level 31
2 Southbank Boulevard
Southbank VIC 3006

Tel: **+61 3 9695 6000**
Fax: **+61 3 9695 6666**

www.ausnetservices.com.au

Locked Bag 14051
Melbourne City Mail Centre
Melbourne VIC 8001

Follow us on
@AusNetServices