



Annual Report

2014/15



Letter to shareholding ministers



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31 October 2015

The Hon Gladys Berejiklian MP
Treasurer
52 Martin Place
Sydney NSW 2000

The Hon Dominic Perrottet MP
Minister for Finance, Services and Property
52 Martin Place
Sydney NSW 2000

Dear Ministers

REPORT ON PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015

We are pleased to submit Ausgrid's annual report detailing performance, operations and financial results for the year ended 30 June 2015.

The report has been prepared in accordance with the *Annual Reports (Statutory Bodies) Act 1984* and is submitted for tabling in Parliament.

Copies are being sent to the Premier of New South Wales (NSW), the Auditor-General, the Minister for Industry, Resources and Energy, and other key stakeholders.

Once tabled, the report will be available on our website www.ausgrid.com.au.

Sincerely

A handwritten signature in black ink, appearing to read "Roger Massy-Greene", written over a large, stylized circular flourish.

Roger Massy-Greene
Chairman

A handwritten signature in black ink, appearing to read "Vince Graham", written in a cursive style.

Vince Graham
Chief Executive Officer

About this report

Ausgrid's 2014/15 Annual Report documents the operating, financial and sustainability performance for the period 1 July 2014 to 30 June 2015.

This report outlines the performance of the organisation over the period and has been approved by the Board of Directors.

The contents of this report are guided by:

- The *State Owned Corporations Act 1989*
- The *Annual Report Statutory Bodies Act 1984*
- The Global Reporting Initiative (GRI) Sustainability Reporting Guidelines Version 3.0 and Electric Utility Sector Supplement
- The Energy Supply Association of Australia (esaa) Sustainable Practice Framework.

Report layout

This report is separated into three main sections:

1. Performance highlights – a written account of Ausgrid's operations and performance including our network, people, community, environment, finance and governance.
2. Consolidated financial report – the company's financial statements for the 2014/15 financial year.
3. Appendices – additional information the company is legally obliged to disclose.

A glossary and index are included on pages 97 and 99.

Assurance

The consolidated financial report has been audited by the Audit Office of NSW and the Independent Auditor's report for Ausgrid and Controlled Entity can be found on page 72.

Feedback

Ausgrid encourages your feedback on this report. Any feedback can be provided to:

- annualreport@ausgrid.com.au, or via Twitter and Facebook, or
- GPO Box 4009, Sydney NSW 2001.

Australian Business Number

Ausgrid's ABN is 67 505 337 385

Costs

The total external cost for the production of this Annual Report was \$16,063, excluding GST. Printed copies of the 2014/15 report are not available as Ausgrid works to minimise its impact on the environment. However, the report is available at Ausgrid's website www.ausgrid.com.au.

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About Ausgrid

Ausgrid's electricity network supplies more than 1.68 million customers in New South Wales, across an area of about 22,275 square kilometres from areas between Waterfall in the south, Auburn in Sydney's western suburbs and north to the Upper Hunter township of Barry.

The Ausgrid network area covers the most densely populated suburbs of New South Wales and supplies about half of all electricity customers in the state.

Ausgrid's customers include residential and large and small businesses, as well as major industry including mining, shipping, tourism, manufacturing and agriculture.

Purpose and vision

Ausgrid's purpose is to be of service to our communities by providing a safe and reliable electricity supply to our customers in an efficient and sustainable way.

Clearly stated values guide the standard of ethical behaviour expected of us and our employees. They govern daily work life and form the basis for everything done at Ausgrid. The values are:

- safety excellence
- respect for people
- customer and community focus
- continuous improvement
- act with integrity.

Ausgrid's operations are guided by a number of policies and codes, including a Code of Conduct, Safety Policy, Environmental Code of Conduct and Policy and Statement of Business Ethics.

A performance scorecard and summary of priorities, "Our plans, our priorities and you 2014/15," is published and is available on the Ausgrid website, www.ausgrid.com.au. This report details Ausgrid's performance against its scorecard and priorities.

Key drivers include improving safety performance, maintaining the reliability of our network and containing average electricity network costs for our customers.

Principal activities and governance

Ausgrid is a NSW State Owned Corporation established under the *Energy Services Corporations Act 1995* (administered by the Minister for Resources and Energy) and the *State Owned Corporations Act 1989*.

Our principal activity is the safe management and operation of our electricity network. We are regulated by statutory and legislative requirements, including Work Health and Safety (WH&S), environmental, competition, industrial, consumer protection and information laws, the National Electricity and Gas Law Rules, the *NSW Electricity Supply Act 1995*, and a NSW Distribution Network Service Provider licence.

Ausgrid manages compliance with these laws and regulations through internal codes and policies and a common control framework, which comprises plans, policies, procedures, delegations, instruction and training, audit and risk management.

As a result of the NSW Government reforms to state-owned electricity networks since 1 July 2012, the three NSW Government owned electricity distribution networks Ausgrid, Endeavour Energy and Essential Energy operated as separate legal entities managed by a joint Board of Directors and common Chief Executive Officer (CEO) during 2014/15.

On 4 June 2015, the *Electricity Network Assets (Authorised Transactions) Act 2015* and the *Electricity Retained Interest Corporations Act 2015* were enacted. The legislation allows the NSW Government to deliver its policy to lease 49 percent of the state's electricity networks and to use the proceeds from those transactions to build new infrastructure.

In preparation for this partial lease of Ausgrid, the management structure of Networks NSW, that has been in place since 1 July 2012, was dissolved on 1 July 2015.

Scale

In 2014/15, Ausgrid's network supplied more than 25,630 GWh of electricity to about 1.68 million network customers. We had 4,613 employees as at 30 June 2015, consisting of full-time and part-time employees and excluding labour hire, contracted services, or positions on the board. The net profit after tax was \$420.1 million. Total company assets were \$16.1 billion with shareholders equity of \$4.5 billion.

Ausgrid's distribution network includes:

- a sub-transmission system of 33kV, 66kV and 132kV assets
- a high-voltage distribution system of 5kV and 11kV assets
- a low-voltage distribution system of 240V and 415V assets.

These assets are referred to throughout the report as "the network". Our customers are therefore homes and businesses which are connected to this network of assets.

Stakeholder engagement

Ausgrid has a range of stakeholders who, as individuals or as a group, could potentially be affected by our operations or could affect our ability to provide services to our customers.

We engage with our customers, communities and other stakeholders through a range of forums. During 2014/15 Ausgrid's consumer engagement strategy guided how we discussed and consulted on our prices, services and plans for 2014 to 2019. By giving customers increased opportunities to communicate with us, we hope to better align our operations to the community's long-term interests. A number of engagement activities are available on Ausgrid's website, www.ausgrid.com.au.

The year in review

Safely improving the product and efficiency of the network is delivering benefits to families and business in Ausgrid's franchise area. The financial year 2014/15 was the third year of the NSW Government's continuing Network Reform program.

Improving safety

Safety is Ausgrid's highest priority and our performance improved during 2014/15 with results for both Lost Time Injury Frequency Rate (LTIFR) and the Total Recordable Injury Frequency Rate (TRIFR) lower compared to the previous year. We have continued to implement our safety strategic plan which focusses on mitigating network fatal risks and improving health and safety management, improving processes, through a public safety program and contractor safety initiatives, we strive to make our network and workplaces free of hazards, and our workers and the public aware of the risks of distributing electricity.

Three years of reform

In 2012 the NSW Government initiated a reform program for the NSW electricity distribution networks in response to community concerns about rising electricity bills. Since then, Ausgrid has focussed on improving both capital and operating efficiencies. The result has been to deliver lower average network price increases for our customers.

Improved network prices

Customers were at the centre of Ausgrid's plans for 2014/15 as we aimed not only to deliver a more affordable electricity network, but to maintain customer satisfaction and build better engagement with customers, stakeholders and the community.

Ausgrid reduced the average network electricity charge in 2014/15 in accordance with the AER Transitional Determination. This marked the first reduction in the level of network tariffs for more than a decade. Retail electricity prices reduced by close to 10 percent in 2014/15 due to the reduced network tariffs.

Financial performance

Ausgrid's net profit after tax for the 2014/15 financial year was \$420.1 million and earnings before interest, tax, depreciation and amortisation (EBITDA) was \$1,770.2 million. Total revenue of \$3,173.5 million was \$171.4 million higher than budget due to favourable volume variances.

The higher than budgeted performance in network energy revenue and lower depreciation was offset by higher operational costs, mainly related to storm repairs in April 2015.

In April 2014 the AER published a transitional regulatory determination and approved network charges to apply for the 2014/15 financial year. The AER's final determination was published in April 2015 and applied retrospectively to 1 July 2014. As a consequence of the AER's retrospective reduction in network revenue, \$409 million of revenue collected from Ausgrid's customers in the 2014/15 financial year is being returned to customers through lower charges from 1 July 2015.

Capital expenditure was \$588.3 million lower than budget. The lower than budgeted capital expenditure was partly the result of reductions in peak energy demand and growth over the past few years, which resulted in the deferral of some planned infrastructure upgrades.

Network renewal and replacement

Ausgrid invested \$579 million in the electricity network in 2014/15 to maintain and replace ageing and unreliable network assets. This capital works program was a significant reduction on the forecast capital spend of \$1,008 million. The capital program further included \$211 million towards major substation projects. More than 543 kilometres of high and low voltage cables and 518 distribution substations were commissioned during the year. In addition, 390,809 planned maintenance tasks and checks were also undertaken across the network with a completion rate of 99 percent. We maintained a strong focus on capital evaluation and delivered efficiency during the financial year.

Network reliability

The reliability performance of Ausgrid's electricity supply continued to improve as measured by the normalised System Average Interruption Duration Index (SAIDI). In 2014/15 Ausgrid had an average 71.4 minutes per customer without supply, compared to 76.52 minutes in 2013/14. The normalised System

Average Interruption Frequency Index (SAIFI), which is the average number of interruptions per customer, improved as well with 0.69 recorded compared to 0.82 in the previous year. The normalised network SAIDI performance was notable as the second best on record after 2012/13, with SAIFI continuing to improve compared to the previous five years.

Responding to record storm damage

Cyclonic winds and flooding in April 2015 left about 275,000 Ausgrid customers without power and caused the most damage the network has ever received, mainly in the Hunter and Central Coast regions. More than 21,000 emergency jobs were reported, 800 field employees were deployed to work around the clock and 700 additional crews and contractors were brought in, from as far as Melbourne and Brisbane, to help repair and replace damaged equipment. Our costs totalled \$39.8 million. During the storm recovery period, Ausgrid contacted 4,000 life-support customers and tripled the capacity of its call centre to answer 42,000 customer calls.

Challenges ahead

In late 2014, the Australian Energy Regulator (AER) flagged proposed cuts to revenue totalling \$3.3 billion or 26 percent for the period 2014 to 2019 in its draft regulatory determination for Ausgrid. In April 2015, the AER published its final regulatory determination for the five-year period to June 2019. As a result, we will be required to cut our proposed operating expenditure over the five-year period by \$754 million and reduce our workforce by 1,100 employees. Consequently, we have successfully applied to the Australian Competition Tribunal for a merit review of aspects of the AER's determination.

Ausgrid's shareholder, the NSW Government, introduced legislation in 2015 for the long-term lease of 50.4 percent of Ausgrid.

The year in review (cont.)

Thanks to staff

Throughout the NSW Government's three-year reform program, we have undertaken a substantial restructuring and realignment of our business. With the support of our employees Ausgrid has achieved a safe, sustainable and more customer-focussed organisation that is capable of embracing the challenges ahead.

2014/15 Balanced scorecard

This scorecard shows what was measure at an organisational level to ensure Ausgrid is on track to deliver a safe, reliable and sustainable network.

WHAT the key result is	HOW we measure it	WHAT the target was	WHAT the result is	
Safety				
Safe, capable, motivated employees	Lost time injury frequency rate (LTIFR)	≤ 2.0	1.4	✓
	Total recordable injury frequency rate (TRIFR)	≤ 11.7	14.3	✗
	Reportable incidents – controllable SENI	≤ 49	44	✓
	High potential incident frequency rate (HPIFR)	Monitor only	5.4	–
Customer/Community Outcomes				
Valued by our community	Customer satisfaction	≥ 80%	78.7%	✗
	Immediately reportable incidents – NECF type 1 breaches	≤ 11	7	✓
Protect public safety & environment	Reportable incidents – environmental	≤ 6	4	✓
Reliability	SAIDI (mins)	≤ 83.3	71.4	✓
	S factor revenue benefit / penalty (including customer service component) (\$m)	Monitor only	18.4	–
Financial Outcomes				
Financial sustainability	Net profit after tax (\$m)	≥ 269.2	420.1 ^{##}	✓
Efficient operations	Operating expenditure budget (\$m)	≤ 808.4	726.6 [#]	✓
Business Process				
Network plan delivery, governance, risk & compliance management	Asset management plan % complete – capital	≥ 95%	86%	✗
	Capital delivery % budget spent for agreed milestones	≤ 95%	78%	✓
	Asset management plan % complete – maintenance	≥ 98%	99%	✓
	Corrective actions outstanding ≥60 days – safety, audit, risk	0	0	✓
Business Enablers				
Safe, capable, motivated employees	Absenteeism days (excluding family/carer's leave)	≤ 8.0	8.7	✗
	Gross to base ratio (at or above 1.5)	≤ 80	144	✗

[#] The operating expenditure result excludes costs that have been offset by unregulated revenues and year-end accounting adjustment relating to the valuation of employee entitlement provision liabilities, restructuring provisions (redundancies) and the opex impact of the April 2014 storm.

^{##} In April 2014 the AER published a transitional regulatory determination and approved network changes to apply for the 2014/15 financial year. The AER's final determination was published in April 2015 and applied retrospectively. As a consequence of the AER's retrospective reduction in the network revenue, \$409 million of revenue collected from Ausgrid's customers in the 2014/15 financial year is being returned to customers through lower charges from 1 July 2015.

Our corporate plan

Ausgrid's scorecard outlines the measures and targets used to monitor performance throughout the year in five key areas: safety, customer and community, financial, business process and business enablers.

Safety	Customer/community	Financial	Business process	Business enablers
Objectives	Objectives	Objectives	Objectives	Objectives
To engage safe, capable, motivated employees.	To be a valued member of the community, protect public safety and the environment and deliver a reliable and sustainable network.	To be financially stable and conduct efficient operations.	To deliver the network plan, governance, risk and compliance management.	To engage safe, capable, motivated employees.
Target for 2014/15	Target for 2014/15	Target for 2014/15	Target for 2014/15	Target for 2014/15
<ul style="list-style-type: none"> Lost time injury frequency rate (LTIFR) ≤ 2.0 Total recordable injury frequency rate (TRIFR) ≤ 11.7 Reportable incidents – controllable significant electricity network incident (SENI) ≤ 49 High potential incident frequency rate (HPIFR) – monitor only. 	<ul style="list-style-type: none"> Customer satisfaction $\geq 80\%$ Reportable incidents – controllable National Energy Customer Framework (NECF) type 1 breaches – ≤ 11 Reportable incidents – environmental ≤ 6 Network reliability – unplanned system average interruption duration index (SAIDI) (mins) ≤ 83.3 S factor revenue benefit/penalty (including customer service component) (\$m) – monitor only. 	<ul style="list-style-type: none"> Net profit after tax (\$m) ≥ 269.2 Operational expenditure budget (\$m) ≤ 808.4. 	<ul style="list-style-type: none"> Asset Management Plan complete – capital $\geq 95.0\%$ Asset Management Plan complete – maintenance $\geq 98.0\%$ Corrective actions outstanding – safety, audit, risk 0 ≥ 60 days Capital delivery – budget spend on delivered milestones $\leq 95\%$. 	<ul style="list-style-type: none"> Absenteeism days (excluding family/carer's leave) ≤ 8.0 Number of staff with a gross-to-base ratio (at or above 1.5) ≤ 80.
Result	Result	Result	Result	Result
<ul style="list-style-type: none"> Lost time injury frequency rate (LTIFR) – 1.4 Total recordable injury frequency rate (TRIFR) – 14.3 Reportable incidents – controllable significant electricity network incident (SENI) – 44. 	<ul style="list-style-type: none"> Customer satisfaction – 78.7% Reportable incidents – National Energy Customer Framework (NECF) type 1 breaches – 7 Reportable incidents – environmental – 4 Network reliability – unplanned system average interruption duration index (SAIDI) (mins) – 71.4 S factor revenue benefit/penalty (\$m) – 18.4. 	<ul style="list-style-type: none"> Net profit after tax (\$m) – 420.1^{##} Operating expenditure (\$m) – 726.6[#]. 	<ul style="list-style-type: none"> Asset Management Plan complete – capital – 86% Asset Management Plan complete – maintenance – 99% Corrective actions outstanding – safety, audit, risk – 0 ≥ 60 days Capital delivery – budget spend on delivered milestones – 78%. 	<ul style="list-style-type: none"> Absenteeism days (excluding family/carer's leave) – 8.7 Number of staff with a gross-to-base ratio (at or above 1.5) – 144.
Focus for 2015/16	Focus for 2015/16	Focus for 2015/16	Focus for 2015/16	Focus for 2015/16
<ul style="list-style-type: none"> Lost time injury frequency rate (LTIFR) ≤ 1.25 Total recordable injury frequency rate (TRIFR) ≤ 11.4 Reportable incidents – controllable significant electricity network incident (SENI) ≤ 40 High potential incident frequency rate (HPIFR) – monitor only. 	<ul style="list-style-type: none"> Customer satisfaction $\geq 80\%$ Reportable incidents – controllable National Energy Customer Framework (NECF) type 1 breaches ≤ 5 Reportable incidents – environmental ≤ 5 Network reliability unplanned system average interruption duration index (SAIDI) (mins) ≤ 73.6 min S factor revenue benefit/penalty (\$m) – \$0 Revenue impact. 	<ul style="list-style-type: none"> Net profit after tax (\$m) ≥ 12.9 Operational expenditure budget (\$m) ≤ 742.2 Improve internal funding (operating cash flow result) $\geq \\$48$m. 	<ul style="list-style-type: none"> Asset Management Plan complete – capital $\geq 95.0\%$ Asset Management Plan complete – maintenance $\geq 98.0\%$ Corrective actions outstanding – safety, audit, risk 0 ≥ 60 days Capital delivery – budget spend on delivered milestones $\leq 95\%$. 	<ul style="list-style-type: none"> Absenteeism days (excluding family/carer's leave) ≤ 8.0 Number of staff with a gross-to-base ratio (at or above 1.5) ≤ 20. Number of staff with a gross-to-base ratio (at or above 1.3) – Monitor Only.

[#] and ^{##} refer to page 6 footnotes.

Performance

We have continued to deliver on our objectives to improve our safety performance, maintain electricity supply reliability and make further progress towards improved electricity affordability.

Improve safety performance

Ausgrid's continued focus on achieving a zero harm workplace saw our safety performance improve in 2014/15. There were 14 Lost Time Injuries recorded in 2014/15, down from 19 in the previous year, meaning fewer employees suffered a workplace injury that resulted in them being unable to work. Ausgrid's Lost Time Injury Frequency Rate (LTIFR) reduced from 2.1[^] in 2013/14 to 1.4 in 2014/15, and the Total Recordable Injury Frequency Rate (TRIFR) reduced from 15.1^{*} in 2013/14 to 14.3 in 2014/15.

Lead indicators of near-miss reporting and safety interactions have shown positive trends, with 348 near misses reported during the year, and 15,787 safety interactions completed by leaders.

Safety management

A number of initiatives contributed towards our improved safety performance, including enhancements to our incident reporting system to make reporting easier for office and field workers.

The use of Incident Causal Analysis Methodology (ICAM) for major safety investigations continued to help the organisation better understand the real causes of serious workplace safety incidents and implement safety improvements. There were 29 ICAM investigations conducted for serious workplace safety incidents in 2014/15 and their key findings were shared with employees to help drive improvements in safety performance.

Ausgrid is a workers' compensation self-insurer. This allows us to provide greater support and rehabilitation for injured employees, as well as prompt processing and management of workers' compensation matters. During 2014/15, we continued to maintain our WorkCover Self Insurer's licence and also maintained our certification against the requirements of the Australian Standard AS4801:2001 Occupational Health and Safety System.

We continued to improve our controls against the nine identified network fatal risks, implementing a set of risk control standards in 2014/15. These controls were further enhanced by the development of a concise set of Rules We Live By to guide workers carrying out Network tasks.

Ausgrid's commitment to safety extends to contractors working on the Network. In 2014/15 a Contractor Safety Charter was established and endorsed by us and our main contractors. The charter includes commitments from Ausgrid and its contractors on joint strategic initiatives, safety standards, reporting, investigations, lessons learnt and employee health and well-being.

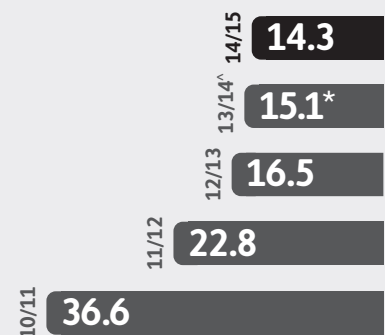
Employee health and well-being

In January 2014, Ausgrid introduced new arc-rated (flame-retardant) protective clothing for all electrically trained staff to improve employee safety. The arc-rated clothing includes self-extinguishing properties to provide better protection for employees in the event of exposure to an arcing fault. The introduction of the clothing followed an accident at Ausgrid's Tomago sub-transmission substation when a technician was seriously injured by an arc-flash burn. The new clothing required extensive laboratory testing and field trials.

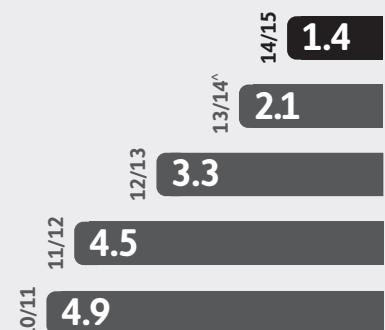
Fatigue has the potential to be a significant contributing factor in some safety incidents at Ausgrid. In 2014/15, we implemented fatigue management plans across the organisation. These were complemented by the rollout of fatigue management training to leaders to better manage the risks associated with fatigue.

Ausgrid developed a new Resilience Strategy to assist the business with managing mental health-related issues in 2014/15. This was supported by a number of internal campaigns aimed at highlighting support resources available to employees, including the Employee Assistance Program and mental health first aid trained staff. Targeted support sessions were conducted for high risk work groups.

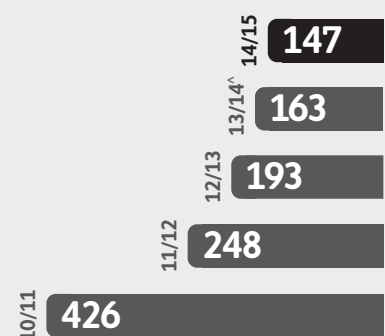
Total Recordable Injury Frequency Rate (TRIFR)



Lost Time Injury Frequency Rate (per million hours worked)



Total Recordable Injuries



^{*}TRIFR note: Ausgrid's TRIFR definition was expanded in 2014/15 to include an incident where a worker underwent a precautionary electrocardiogram (ECG) without requiring medical treatment. Under the 2013/14 reporting definition Ausgrid's 2014/15 result is effectively 13.3, a significant improvement on the 2013/14 result of 15.1^{*}.

[^]Events affecting the 2013/14 report. Some safety performance information has changed since the publication of the 2013/14 Annual Report. Reported figures are accompanied by an 'as at' date. Any changes to the figures are reported as exceptions and notes made as to why. Ausgrid's 2013/14 LTIFR and TRI have changed due to further information provided. Ausgrid continues to monitor and review all injured workers in this manner and reviews and updates injury records accordingly.

To support employee health, voluntary health checks and flu vaccinations were made available to all staff. The number of employees attending a health check increased on the previous program, with more than 860 employees attending health checks during February and March across 17 work sites.

Ausgrid's random drug and alcohol program tested 1,190 people across all locations, with two results above the acceptable threshold for drugs or alcohol.

Improve customer value

Controlling network prices

We continued our network reform program throughout 2014/15, including a comprehensive restructure of the organisation. A key driver for this three-year reform was achieving better electricity affordability for customers by improving efficiency and reducing costs to keep average network electricity charges at or below CPI.

In April 2015 the Australian Energy Regulator (AER) published its final regulatory determination to apply to Ausgrid for the five-year period from July 2014 to June 2019. Although that determination imposed retrospective cuts to Ausgrid's operating expenditure proposals and our capital programs, it also meant reduced network charges for customers. Typical residential customers will receive a \$165 average annual reduction on their electricity bills in 2015/16 and \$264 for typical small businesses.

Reform Program

The third year of the government reform program has proceeded in accordance with the overall strategic direction. These reforms are intended to improve efficiency and reduce costs in order to keep average network electricity charges at or below CPI over the next five years.

Ausgrid's fleet efficiency program has delivered more than \$49m worth of savings over three years including the removal of 367 vehicles from the Ausgrid fleet.

The first stage of a new strategic procurement framework was launched in March 2014, focussing on the procurement sourcing to the point of contract execution. This aligns sourcing and contract execution processes across Ausgrid, gives visibility to individual purchases which could be aggregated into larger contracts, introduced electronic smart forms and reduced the potential for misuse of purchase orders and fraud.

Reliability

The Reliability and Performance Licence Conditions, set by the NSW Minister for Energy, outline the minimum standards of electricity supply reliability that Ausgrid needs to provide. Ausgrid invests in the network to satisfy these standards as required. We assess the reliability performance of our network by considering the average time customers are without electricity, the System Average Interruption Duration Index (SAIDI) and the average number of interruptions, the System Average Interruption Frequency Index (SAIFI). These figures are normalised to exclude rare and extreme events in order to provide a view of the underlying network performance.

Ausgrid's reliability performance was strong for 2014/15 when compared to the performance over the last five years. Mild weather, particularly during the first and third quarters, contributed to this performance, despite the significant impact on parts of Ausgrid's network from severe storms and floods in April 2015, although this was an excluded event. Overall for 2014/15 customers were without electricity for an average of 71.40 minutes (SAIDI), compared to 76.52 minutes in 2013/14 (see graph on page 10). The average frequency of interruptions per customer (SAIFI) was 0.69, compared to 0.82 in the previous year (see graph on page 10).

29

ICAM INVESTIGATIONS
CONDUCTED IN 2014/15

MORE THAN 860

VOLUNTARY HEALTH
CHECKS OCCURRED

15,787

SAFETY INTERACTIONS
WERE COMPLETED BY LEADERS
IN 2014/15

1,190

RANDOM TESTS FOR DRUG AND
ALCOHOL PERFORMED

Performance (cont.)

Ausgrid met average reliability standards in each feeder category in 2014/15. During this period, 61 distribution feeders exceeded their feeder category thresholds and required investigation. All actions required as a result of these investigations were met in the relevant timeframes.

A number of targeted projects were completed during the year to improve reliability for identified customers. These projects had a total value of \$2.3 million and included the installation of seven reclosers and 13 remote controlled switches. The reclosers and control switches reduce the number of customers experiencing sustained outages and shorten the time taken to locate network faults. Ausgrid also replaced bare overhead conductors with covered conductors in some heavily vegetated areas to reduce the number of interruptions caused by trees and other vegetation.

Improving customer service

In 2014/15, we focussed on enhancing our customers' experience. These efforts were supported by a new Customer Commitment Statement introduced in April 2015, outlining what customers could expect from the organisation.

Ausgrid's Customer Satisfaction Index result for 2014/15 was 78.7 percent, lower than the target of 80 percent but an improvement of 1.3 percent on the 2013/14 result.

Other opportunities to enhance Ausgrid's customer service were identified, including partnering with retailers to provide better outcomes for customers. A range of self-service reporting forms were also implemented on Ausgrid's website and mobile website.

Throughout the year, Ausgrid had seven immediately reportable breaches of the National Energy Customer Framework (NECF), where we failed to provide the required advance notice to registered life support customers about planned power outages. The importance of notifying registered life support customers is recognised and letters were sent to about 20,000 of these vulnerable households in mid-2015, providing information and contact details.

Deliver the network plan

Network investment

Ausgrid is committed to delivering a safe, reliable and affordable electricity supply. Under reforms commenced by the NSW Government in 2012, we are working to make the network more efficient and reduce expenditure to help put downward pressure on consumer prices.

In 2014/15 Ausgrid invested \$579 million in our electricity network – almost 45 percent less than the approved capital expenditure of \$1,008 million. This reduction was the result of significant changes to investment governance. This investment included a focus on lower cost delivery models, and a review of approval conditions which led to a number of projects being cancelled and/or deferred. The expected continuing decline in electricity consumption has allowed risk factors for current asset conditions to be reassessed.

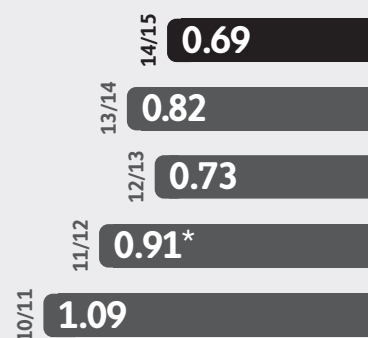
Capital investment during 2014/15 included \$211 million for major substation and feeder projects, including new substations brought into service at Rose Bay and Waverley. Major refurbishments were completed at St Peters and Bunnerong North, along with sub-transmission feeder projects at North Sydney, Belmore Park and Engadine.

More than 543 kilometres of high and low voltage cables were commissioned during 2014/15 and work continued on 67 major projects, including new sub-transmission feeders from Mason Park to Rozelle, Lindfield to Willoughby, and Lindfield to Castle Cove, and zone substations at Olympic Park, Engadine, Metford and Tighes Hill.

Detailed design and development commenced on seven major projects and construction was approved for seven substation upgrades and sub-transmission feeder projects, including new sub-transmission substations at Munmorah and Alexandria.

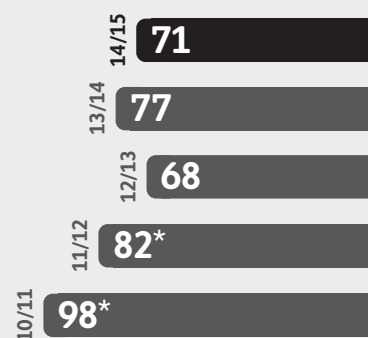
In addition to this capital expenditure, 390,809 planned maintenance tasks and checks were completed across the network, involving operational expenditure of more than \$295 million. This includes underground and overhead line inspections, pole inspections and treatments, bushfire patrols and substation inspections.

System average interruption frequency index (SAIFI)



*Historical figures differ from prior annual reports due to data improvements across all years.

Average customer minutes without supply



*Historical figures differ from prior annual reports due to data improvements across all years.

Managing business risk

Business risk activities

Throughout 2014/15, we reviewed major business risks to achieve our strategic objectives and developed and implemented action plans to help mitigate those risks. Awareness of the importance of risk management was increased across the organisation through the roll out of a risk e-learning module.

Ausgrid has business continuity plans in place for its critical business processes to make sure they can continue in the event of a serious unplanned disruption. A testing program was conducted, which included a successful test of continuity during a simulated loss of Ausgrid's Sydney CBD assets. The test included activating four alternative sites and involved 49 employees activating 18 critical process plans. Lessons learnt were reported and managed to ensure continuous improvement.

Bushfire risk management

Ausgrid works with stakeholders, including the NSW Rural Fire Service, local councils, community groups and property owners to help protect the network and the community against damage from bushfires. This involved patrolling almost 163,000 poles (including 39,800 privately owned poles) and almost 4,000km of overhead wires in bushfire-prone areas prior to the bushfire season.

Any high-risk defects identified on the network during the patrols were corrected on a prioritised basis. Where high-risk defects were identified on privately owned overhead wires or poles during the patrols, the owner was notified that they needed to carry out repairs. A follow-up process then checks that the repairs have been done. Hazard reduction programs, including vegetation clearing, were also carried out to help protect the community and essential infrastructure, such as transmission lines, from bushfire risks.

Risk management framework

Ausgrid, along with Endeavour Energy and Essential Energy, delivered all initiatives in the Networks NSW Risk Management Strategic Plan for 2014/15. The Ausgrid 2014/15 Corporate Risk Management Plan was developed around nine business risk categories and the related events that could prevent us from achieving our corporate objectives. Regular reports are provided on each business risk category to the Executive Audit Risk and Compliance Committee and to the Board Audit and Risk Committee on the results of ongoing monitoring and review of risks, and the status of actions plans to manage them.

Business risk categories and description

Risk Category	Generic risk Description
Safety	Fatality/serious injury of employee or member of public
Network	Significant customer impact related to the Network
Finance	Significant unbudgeted financial loss
Compliance	Liability associated with a dispute or material breach of legislation or licence
Reputation	Sustained public criticism of Ausgrid
Environment	Significant environmental incident
People	Failure to deliver performance through people
Strategy	Strategic objectives are not delivered and business opportunities are lost
ICT	Significant ICT and Operational Technology service failure

Performance (cont.)

Deliver performance through people

Developing people

In recognising the importance of leadership in driving performance, Ausgrid focussed on developing leadership effectiveness in 2014/15. Strategic and active leadership programs were rolled out to all senior managers to develop their capability in line with a new leadership competency framework. Developing leadership resilience in times of change has been a key theme of the training.

Safety leadership competency training was rolled out to Ausgrid frontline leaders in 2014/15, covering key safety leadership focus areas, including effective safety communication and consultation, incident management, safety interactions and contractor safety management.

In addition to our ongoing ethics training, we introduced training to support a fair and just culture.

'Make the Right Choice' leader-led ethical choice discussions regarding 'Contractor Management' and 'Bullying and Harassment' were rolled out in 2014/15. The ethics sessions provide realistic scenarios to bring our values to life by facilitating discussions on what action should be taken if we were to base our actions on our values. During the year we continued to develop and train our leaders in the new ethics discussion topics. A new ethics strategy will be developed and rolled out to all employees in 2015/16.

The program was developed to reinforce the organisation's values and how they should be applied to everyday behaviours. The first phase of the three-year program was rolled out in 2014/15 to 95 percent of managers and 90 percent of employees. A second phase will continue in 2015/16, focussing on further embedding these behavioural and cultural attributes across the organisation. (See page 16 for further information.)

E-learning continued on topics ranging from electrical safety rules to information security awareness and corporate compliance training and 34,751 online courses were completed throughout the year.

Employee achievements

Ausgrid's asbestos training program received recognition in the international Brandon Hall Excellence in Learning Awards in 2014, receiving a Bronze award in the category for Best in Extended Enterprise Learning Program.

Ausgrid Apprentice Mechanic Terrence Wong received the Heavy Commercial Vehicles 2014 award at the Wetherill Park TAFE NSW – Heavy Vehicle Annual awards in June 2015 for excellence in his field of work.

Leverage technology

Improving the customer experience

Ausgrid continued to improve operations to benefit customers through improved technology through three projects in 2014/15.

Mobile generators can be used to supply electricity to customers affected by routine work or network faults. Previously, Ausgrid had limited capability in supplying low voltage mobile generators. However, six new 500kVA and 300kVA mobile generators developed by Ausgrid will be used across the network to improve response times, reduce costs and also as a contingency option during peak demand periods. The first 500kVA unit was trialled in the Central Coast area during the April 2015 storm response.

Patrolling long powerlines to identify a fault and restore supply to customers can be a lengthy process, so Ausgrid identified, investigated and trialled a new low-cost solution. New line fault indicators (LFIs) can improve restoration times on 11kV overhead powerlines when faults occur due to impact from trees, wildlife or equipment failure. The new LFIs can be installed without interrupting supply to customers and provide local and remote indication in Ausgrid's Control Rooms, improving customer restoration times for faults on 11kV overhead powerlines.

Ausgrid introduced a new homepage and information architecture for its website in October 2014, which also catered for mobile users. It was designed to be more customer-focussed and streamlined, better reflecting the network-only business. Automated customer self-service forms were also introduced, including access via mobile

phones. The community and local councils can report graffiti, trees growing near powerlines and request a pole be inspected using a map-based tool.

Improved efficiency

Ausgrid's field staff have been using mobile field computer technology that support more efficient work processes over paper-based forms. iPad technology has started to roll out to replace ageing tablets and existing applications and forms used by the mobile workforce were also updated.

In 2015, a project to improve the ability to trace and monitor cables drums was rolled out to 15 depots. It also helped with minimising cable waste and increasing the reuse of drums.

Improving systems

We replaced our MS Access front end to the Ausgrid Dial Before You Dig request response system with vendor software (AIRS) that has provided increased capacity and scalability and improved functionality.

A new standard operating environment was designed, built and deployed to mitigate risk against malware and security threats, ensure integration compatibility with current infrastructure and applications and maintain support from computer application suppliers.

The nemSTAR platform migration was the first of three projects to move nemSTAR functionality into other strategic and supported metering systems to retire the nemSTAR system. The core function of nemSTAR is to load, validate and distribute interval meter data to the Australian Energy Market Operator, market participants and other third parties. Ausgrid uses the interval meter data for network billing.

Data migration

In November 2014, retail customer data previously held in Ausgrid's systems was successfully migrated to EnergyAustralia when the Transitional Services Agreement with EnergyAustralia came to an end. In preparation to becoming a network-only business, more than 1,100 modifications were made to Ausgrid's systems while 791 million records were transferred to EnergyAustralia.

Network

Ausgrid is focussed on maintaining a safe and reliable supply of electricity to our customers by sustainably managing our assets. This approach will help contain electricity prices and allow ageing infrastructure to be replaced.

Determining network investment

Ausgrid's 2014–19 capital plan is driven by the need to renew existing assets, to maintain network safety and reliability and manage environmental risks. The 2014/15 financial year marked the first year of this sustainable five-year capital program, with network investment forecast to decline from an average \$1,412 million per annum (2009–14) to \$700 million per annum (2014–19.)

The reduction in capital expenditure was achieved as a result of several key initiatives.

- Improvements to demand forecasts such as weather correction and econometric modelling, resulting in better forecast accuracy and a lower growth forecast, reducing the need for network augmentation.
- Reviews of scope and delivery strategies for a number of major projects, utilising multi-year staged development, and achieving greater efficiency through alternate market-based delivery models for both major substation and sub-transmission feeder projects.
- Review of risk assessments for replacement investment, including the introduction of additional mitigation alternatives.
- New requirements under AER guidelines for customers proposing major new urban connections to fully fund on-site substations, associated network extensions, building construction and other network augmentations.

In 2014/15, Ausgrid completed work on 19 substation and feeder projects, many of which replaced existing infrastructure that had reached the end of its service life. Construction of two sub-transmission substations (STS) at Alexandria and Munmorah was approved and is expected to be completed over the next three years. Replacement of switchgear at substations in Punchbowl, Surry Hills and Mona Vale was also endorsed.

The board approved detailed design and development of six new major projects, including a zone substation at Strathfield South, refurbishment of Waratah STS in the Hunter, Summer Hill substation and feeders, and a new 132kV feeder from Beaconsfield West to Belmore Park.

Peak demand recorded slight increases compared to the previous year, with the aggregate summer peak of 4,912 MW recorded on 21 November 2014, a rise of 0.4%. The aggregate winter peak occurred on 11 August 2014 at 4,692 MW, an increase of 0.6% on the previous winter.

AER submission

Ausgrid's capital and operating expenditure is set by the Australian Energy Regulator (AER) every five years. On 30 April 2015 the AER published the Final Regulatory Determination to apply to Ausgrid for the five-year period to June 2019. That final regulatory determination imposed retrospective cuts of \$754 million to operating expenditure proposals and \$554 million to capital programs. The final regulatory determination had to be implemented for electricity consumers on 1 July 2015.

As a result, we are required to cut our proposed operating expenditure over the five-year period by \$754 million and reduce our workforce by a further 1,100 positions. The AER's determination also lowered the rate of return on debt – the Weighted Average Cost of Capital – by 3.34 percent compared to the previous regulatory period. Ausgrid has successfully applied to the Australian Competition Tribunal for a merit review of several aspects of the AER's determination.

Metering

Ausgrid maintained metering at more than 1.68 million customer premises in 2014/15, including 497,000 interval meters for customers on a Time of Use tariff. Meter readers completed about seven million scheduled reads and 450,000 special reads.

In June 2015, Ausgrid acquired Endeavour Energy's InfoMet metering business bringing the number of Ausgrid owned contestable meters to over 30,000. The purchase included all associated metering equipment and customer contracts and further consolidates Ausgrid's contestable metering business.

ASSETS INSTALLED OR REPLACED

518

DISTRIBUTION SUBSTATIONS

543_{KM}

OF HIGH AND LOW VOLTAGE CABLES

49

MAJOR WORKS IN PROGRESS WITH A COST TO DATE OF >\$5M

21,546

SERVICE WIRES

862

NETWORK DISTRIBUTORS

307

CUSTOMER DIRECT DISTRIBUTORS

2,820

LOW CLEARANCE MAINS RECTIFIED AND COMPLETED

7_{MILLION}

METER READINGS

13,495

ENERGY EFFICIENT STREETLIGHTS

Network (cont)

Streetlighting

Ausgrid manages 250,647 streetlights across our network on behalf of 41 councils and other customers. This year, we installed 13,495 new energy efficient streetlights, bringing the total number of energy efficient streetlights to 117,790, or about 47% of the streetlighting network. Crews responded to 22,392 customer reports of streetlight faults in 2014/15, including 16,548 streetlights supplied mainly by the overhead network. Our target, as set by the Public Lighting Code, is to repair street lights within 8 days average per Council per year on receipt of a fault report. Although our average repair time for 2014/15 was 7.5 days for all 41 Councils, 13 Council areas had a response time of more than 8 days.

Vegetation management

Ausgrid trims trees and branches growing too close to powerlines to help keep the community and our staff safe, maintain reliability, and remove potential bushfire hazards. This year Ausgrid contractors cleared vegetation from 162,604 spans of overhead conductors and recycled 16,634 tonnes of cuttings.

Demand management

Investigating demand management alternatives to meet network needs is an important part of planning for a safe and reliable network. In 2014/15, Ausgrid carried out a comprehensive assessment of growth-driven projects to determine if non-network options could allow costs to be deferred. However, due to declining electricity use there were fewer projects to assess, and the review found that low-cost grid solutions were the least-cost option for meeting the remaining network needs. Similarly, an assessment of replacement projects for demand management opportunities did not identify any projects which were viable for deferral, largely due to the significant demand reductions required. Ausgrid is reviewing planning standards and will re-evaluate all network needs in the near future.

As part of our efforts to keep downward pressure on prices, we continue to explore new and innovative ways to reduce peak demand to allow investment to be deferred. Its demand management innovation program includes:

- **CoolSaver:** Trial to test viability of air-conditioning load control as a cost-effective alternative to network investments. This trial has been extended in the Central Coast and Lake Macquarie areas to the end of summer 2016. The trial has also been broadened to Maitland where Ausgrid is assessing the use of lower-cost, alternative sales channels to recruit new customers.
- **CBD Generator:** Ausgrid's triplex-style electricity network in the Sydney CBD delivers high reliability but presents technical and financial challenges to connecting embedded generation due to the fault level impacts on the network and customer equipment. This trial tests the development of a cost-effective solution to facilitate more embedded generation in the Sydney CBD and help defer network investment. In 2014/15, Ausgrid completed a detailed system and protection design and selected a site to trial the solution. Implementation is scheduled for 2015/16.
- **Grid Battery:** In 2014-15, we completed our Grid Battery trial in the Sydney suburb of Newington. This trial investigated the potential impacts, benefits and performance of battery storage. It specifically set out to test whether a grid-side battery can be operated reliably and effectively for summer peak reduction, improve power and supply quality parameters of the network and moderate the impacts of intermittent solar generation.

The battery system was found to be effective in smoothing solar power generation, but due to the robust nature of the network in Newington, power quality testing was inconclusive. Testing to determine the potential to lop peak demand has shown promise, but due to the inherent energy limitations of storage, further work is required in short term forecasting and battery system sizing to optimise storage solutions for this purpose. Common with emerging technologies such as this, system costs and reliability are not yet at a level that would warrant consideration in providing network support, but it is expected that as commercialisation of energy storage systems becomes more advanced, grid batteries will offer a viable option to meeting network needs.

National Energy Customer Framework

The National Energy Customer Framework (NECF) provides a consistent national framework for supplying electricity and gas services to customers across Australia. The framework came into force in NSW on 1 July 2013, and Ausgrid has responded by developing new systems and procedures to improve services for customers, retailers and other providers.

In addition to immediate reporting of breaches of planned interruption obligations affecting life support customers, quarterly compliance reports for lower impact breaches are also required to be submitted to the AER during the year. A final report for 2014/15 will be provided to the AER by the end of August. In the full year there were a total of seven instances of planned interruptions to life support customers without sufficient advance notice (which are immediately reportable to the AER), and seven de-energisation errors of individual (non life support) customers. Both are classified as Type 1 breaches. The total of 14 is a reduction on the 23 Type 1 NECF breaches reported in 2013/14. We are continuing to improve our processes to further reduce the incidence of breaches.

Major Capital works in progress 2014/15

Details of all major capital projects with a total cost to date greater than \$5 million are listed below.

Project Name		Overall Budget (\$)
1	132kV CONNECTIONS RILEY ST TO DALLEY ST	203,800,000
2	BANKSTOWN STS – PUNCHBOWL 33kV FEEDERS	16,600,000
3	BANKSTOWN STS 33kV SWITCHGEAR REPLACEMENT	19,400,000
4	BEACONSFIELD WEST 132kV BUSBAR REPLACEMENT	35,900,000
5	BELMORE PARK 132kV FEEDERS	16,750,000
6	BELMORE PARK NEW 132/11kV ZONE	107,990,000
7	BLIGH ST NEW 132/11kV ZONE	28,690,000
8	BRANDY HILL NEW 132/11kV ZONE	19,840,000
9	BUNNERONG NTH 132kV CAPACITORS & TRANSFORMER REPLACEMENT	12,593,756
10	CAMPERDOWN 33kV FEEDER REPLACEMENT	23,500,000
11	CAMPERDOWN ZONE REFURBISHMENT	12,210,000
12	CANTERBURY STS REFURBISHMENT	45,400,000
13	CROWS NEST ZONE 132kV CONVERSION	18,600,000
14	CROYDON NEW 132/11kV ZONE	25,100,000
15	DALLEY ST EMERGENCY 11kV SWITCHGEAR	7,350,000
16	ENGADINE 132/11kV ZONE	22,900,000
17	ENGADINE NEW 132kV FEEDERS	23,400,000
18	EPPING ZONE 11kV SWITCHGEAR REPLACEMENT	11,600,000
19	FEEDERS 91L, 91M1 & 91M3 REPLACEMENT	214,400,000
20	HURSTVILLE NORTH 132/11kV ZONE	31,100,000
21	JANNALI ZONE REFURBISHMENT	14,200,000
22	KURINGAI STS 33kV SWITCHGEAR REPLACEMENT	25,860,000
23	KURNELL NEW 132/11kV ZONE	14,607,439
24	LEICHHARDT 132/11kV ZONE CONVERSION	21,650,000
25	LINDFIELD – CASTLE COVE 132kV FEEDER	30,440,000
26	LINDFIELD STSS 132kV RING MAIN CIRCUIT BREAKER	20,920,000
27	LINDFIELD – WILLOUGHBY 132kV FEEDERS	49,100,000
28	MANLY ZONE 33kV SWITCHGEAR REFURBISHMENT	9,500,000
29	MARRICKVILLE ZONE NEW 132kV RING MAIN CIRCUIT BREAKER	18,600,000
30	MASON PARK – OLYMPIC PARK 132kV FEEDERS	7,500,000
31	MASON PARK – ROZELLE FEEDER 900 REPLACEMENT	60,600,000
32	MEDOWIE 33kV FEEDERS	10,960,000
33	MEDOWIE NEW 33/11kV ZONE	15,570,000
34	METFORD NEW 33/11kV ZONE	25,700,000
35	MITCHELL LINE – MUSWELLBROOK 66kV FEEDERS	18,500,000
36	MUSWELLBROOK ZONE 132/11kV CONVERSION	23,100,000
37	NEWCASTLE CBD FEEDER 770 OIL FILL CABLE REPLACEMENT	14,400,000
38	NORTH SYDNEY 132kV FEEDER AUGMENTATION	16,100,000
39	NORTH SYDNEY ZONE REDEVELOPMENT	78,900,000
40	OLYMPIC PARK NEW 132/11kV ZONE	28,000,000
41	PORT HACKING REFURBISHMENT	41,020,000
42	ROOKWOOD RD BULK SUPPLY POINT	9,880,000
43	ROSE BAY 132kV FEEDERS	80,280,000
44	ROSE BAY NEW 132/11kV ZONE	23,160,000
45	ST IVES 33kV FEEDER 540, 541 & 542 REPLACEMENT	8,900,000
46	ST PETERS ZONE NEW 132kV RING MAIN CIRCUIT BREAKER	22,500,000
47	TIGHES HILL NEW 33/11kV ZONE	23,900,000
48	TORONTO WEST NEW 132/11kV ZONE	24,900,000
49	WAVERLEY NEW 132/11kV ZONE	30,330,000

People

Capable, productive people are key to the success of Ausgrid's business. As part of an ongoing reform program, activities have included aligning our structure and introducing a fair and just culture. Other initiatives have focussed on employee mobility, ethics training and customer service.

Responding to change

We continued to refine our organisational structure focussing on reducing duplication as part of the reform program. Extensive consultation with employees and unions continued and the appointment of 987 employees and managers to the new structure followed. These changes were supported by employee communications and an increased focus on redeployment to support those employees impacted by structural changes, including Ausgrid's reduced capital works program and the end of the Transitional Service Agreement with EnergyAustralia in 2014. Leadership training was delivered to over 180 managers.

As a direct consequence of the AER's final determination Ausgrid will not have funding for an estimated 1,100 jobs from 1 July 2015. The cost of these unfunded jobs is \$12.6 million per month. A program of voluntary redundancy has been initiated with 774 employees taking voluntary redundancy in 2014/15.

Personnel policies and practices

In 2013, a refreshed set of values were communicated followed by the ongoing Make the Right Choice ethics training to support employees in making ethical decisions in the workplace.

As a next step, a new fair and just policy was introduced in 2014 further ensuring employees knew how to apply these values and manage their behaviours in line with them in their everyday work. By developing a fair and just culture, the aim has been that all employees know what is expected of them through training held throughout the year, the right behaviours are recognised and reinforced, and the right responses are consistently applied to the wrong behaviours. The fair and just culture further enhances Ausgrid's continued focus on building a safety culture in recent years.

A new Customer Commitment Statement was introduced to employees in April 2015 following input from staff and external stakeholders. Its aim has been to help employees understand how we are putting our customers at the centre of everything we do by listening to customers, respecting them and delivering for them. The commitment statement is available on Ausgrid's website, www.ausgrid.com.au, and supports Ausgrid's plan to improve customer service and engagement.

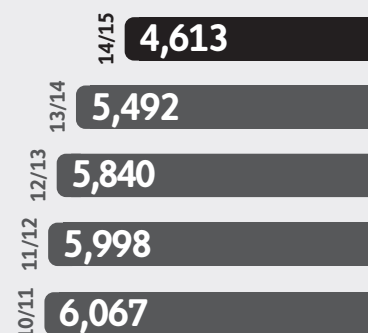
Apprentices

Due to restructuring and the regulatory environment no new apprenticeships were started in 2014/2015, 137 apprentices completed their studies throughout the year, and another 161 continued through their training programs at various stages. Mobility training was provided to Ausgrid apprentices to assist them with managing their careers.

Employee mobility

Ausgrid has responded to the impacts of restructuring and a reduced capital works program by helping redeployees identify work opportunities and support them with career transition. In early 2015 Ausgrid established Career Training Centres in Sydney and Newcastle with specialist mobility support staff providing redeployees with information and tools to manage their own careers. More than 60 employees have attended the new centres. In 2014/15, 202 redeployees successfully gained permanent positions within Ausgrid and a further 213 redeployees accepted voluntary redundancies.

▼ Employees (headcount)



APPRENTICES

137

APPRENTICES COMPLETED THEIR STUDIES

161

APPRENTICES CONTINUING STUDIES

31

GRADUATE ENGINEERS

9

ENGINEERING CADETS

28

TRAINEES

1

COMMERCIAL GRADUATE

Diversity

Ausgrid is committed to developing and promoting diversity and inclusion within the organisation and in 2014/15 we developed a diversity framework in which these principles could be realised. The guiding principles were to create a workplace environment where everyone feels motivated, included and respected, and which provides equal access to employment.

This framework was discussed at Ausgrid's new Executive Diversity Council, established in 2015. To support the diversity framework, the Council endorsed the development of a Diversity and Inclusion Matrix setting out Ausgrid's key diversity objectives, and formation of an employee-nominated working group to deliver on these objectives.

Diversity in the workplace is also respected by accommodating the needs of employees and offering special leave provisions for cultural obligations. To celebrate diversity and inclusiveness, employees were encouraged to be involved in cultural events and other activities throughout the year, such as NAIDOC Week celebrations.

Women

A new diversity framework and matrix to support diversity at Ausgrid and equality of opportunity was developed in 2014/15. A key objective was to foster an inclusive, fair and just workplace for women, free from discrimination, harassment, bullying and victimisation.

Indigenous programs

Ausgrid has run a successful Indigenous Pre-Apprenticeship Program with assistance from the Australian Government's Indigenous Employment Program since 2006. During that time, more than 160 indigenous students have completed the program using it as a stepping stone to other training and employment opportunities. No new apprentices were taken on during the year, however, we continue to support this program through our work with other electricity industry organisations to place indigenous participants in electrical apprenticeships.

The Indigenous Steering Committee also continued to consider indigenous policy and programs at Ausgrid and promote indigenous culture and community engagement. The committee met twice during 2014/15 and organised employee activities, including National Aborigines and Islanders Day Observance Committee (NAIDOC) Week celebrations. We also continued to support the Narrabeen Surf Life Saving Club's Bush to Beach Program for disadvantaged Aboriginal children from the outback town of Brewarrina.

Equal Employment Opportunity

Ausgrid's induction program for all new employees includes completion of online Equal Employment Opportunity (EEO) training. The online training is a compulsory course designed to guide employees on what represents acceptable behaviour and highlight what may constitute harassment, discrimination, bullying and victimisation. During 2014/15, 119 new employees successfully completed the Ausgrid online EEO training.

Employee relations

Ausgrid's current enterprise agreement nominally expired in December 2014. Negotiations for a new agreement have been made more complex as a consequence of the Australian Energy Regulators reductions to capital and operating expenditure.

Community

Ausgrid aims to be a good neighbour by engaging with the community as part of planning, constructing, operating and maintaining the electricity network. We promote public electrical safety initiatives, including bushfire and safety hazards on private poles and powerlines, and invest in community welfare initiatives.

Public safety

Ausgrid invested more than \$1 million in electrical safety campaigns through its Public Electrical Safety Awareness Program to raise awareness of the hazards associated with electricity. Outdoor workers, including tradespeople, construction workers, builders, scaffolders, crane and plant machinery operators and truck drivers were the primary target for campaigns about excavating near underground cables and working near overhead powerlines.

Other community awareness campaigns focussed on do-it-yourself electrical safety, bushfire awareness, storm safety, electric shocks and tingles and the risks associated with copper theft. Ausgrid and Endeavour Energy also ran joint electrical safety messages on radio stations in the Sydney area throughout 2014/15.

An unbranded social media safety campaign continued to target young males in the Sydney and Hunter region to raise awareness of the risks when acting irresponsibly around electrical equipment. It was run jointly with Endeavour Energy this year, increasing the target area and campaign reach.

A new brochure and magnet were mailed to Ausgrid's life support equipment customers to assist in developing an emergency back-up plan in the event of a blackout. The campaign also ensured the life-support customer details were updated if necessary.

Electricity education programs and resources have been developed in association with the NSW Department of Education & Communities to incorporate electricity safety as a core theme. More than 800 schools took part in Ausgrid's annual Electricity Safety Week. Other resources provided for schools included an Electricity and Safety information kit for Years 5 & 6 students, Electrical Safety Activities for primary school pupils, SMART notebook lessons and high school electricity resources.

Security

Throughout the year, there were 19 incidents of copper theft worth \$171,790 from Ausgrid depots, substations and other sites. This included \$100,000 worth of damage when 17 bays of copper conductor were removed. An additional 31 incidents of theft and malicious damage were reported at Ausgrid depots and substations costing \$21,208.

Dial Before You Dig

Damage to the underground electricity network can cause serious injury in addition to blackouts to homes and businesses. Dial Before You Dig (DBYD) is a non-profit, free, referral service that gives residents, builders, plumbers and other tradespeople access to maps detailing underground services. Ausgrid received and processed 159,358 DBYD referrals during the reporting period, a 22 percent increase on last year's total of 130,767 referrals.

Graffiti

In 2014/15, Ausgrid spent almost \$593,521 to clean graffiti from our infrastructure. Crews responded to 3,517 reports of graffiti, about 22 percent more than 2013/14. The average response time to deal with reports of graffiti vandalism was about eight days.

Customer Council

Ausgrid's Customer Council comprised of the Smith Family, Ethnic Communities Council, Council of Social Service of NSW, Nature Conservation Council, Council on the Ageing NSW (COTA) and Country Women's Association. Membership increased when Public Interest Advocacy Centre (PIAC) joined the Council this year. It normally meets four times per year, however, two additional meetings were held as part of an improvement project to increase engagement. This project resulted in redrafting the Customer Council Charter and work procedures for the Council. The committee reviewed key performance indicators, gave input to draft customer-related policies and Ausgrid's new Customer Commitment Statement.

Public consultation

Ausgrid is committed to being a good neighbour and engaging with the community we serve as part of planning, constructing, operating and maintaining the electricity network. During 2014/15, a new community engagement policy, tools and guidelines were implemented to better equip employees to work effectively with the community.

As part of our planning of major projects, Ausgrid established an improved process for engaging with the community focussing on early engagement with people and organisations potentially impacted by the work.

Ausgrid engaged with the community on more than 50 major projects, such as the planning of new sub transmission cable routes or major substations, as well as construction related programs to minimise the impact of work on communities and keep them informed.

An engagement program was also implemented to support Ausgrid's checks for bushfire and safety hazards on private poles and powerlines in bushfire-prone areas and to help owners of private poles and powerlines understand what they need to do to keep their poles and powerlines safe.

A key area of interest to the community has been around Ausgrid's management of vegetation near powerlines to maintain a safe and reliable electricity network. During 2014/15, Ausgrid started work on a program to engage widely on this issue to ensure the community's views are considered as part of future planning for managing vegetation around the electricity network.

Community investment program

Ausgrid's community investment program supported various charity, education and community welfare initiatives. This year Ausgrid contributed an additional \$150,000 for dollar-matching employee payroll giving contributions of \$158,000 made by more than 890 employees. Throughout the year a total of \$592,000 helped support the NSW Rural Fire Service, Surf Life Saving (Hunter, Central Coast and Northern Beaches Branches), the University of Newcastle Chair of Intelligent Electricity Networks and the University of NSW Chair in Electrical Power Economics. This included \$40,000 to support the Sydney Burns Foundation as part of a two-year research partnership.

Multicultural policies and services program

We are committed to meeting the needs of our diverse customer base and ensuring that our services are accessible by all members of the community. We continue to offer a language interpreter assistance service to cater for customers from diverse cultural and linguistic backgrounds. As part of working with culturally diverse groups across the community, the Ethnic Communities Council continues to be a part of Ausgrid's Customer Council.

Our corporate values commit us to acknowledging and valuing cultural diversity through the management of employees, interactions with suppliers, and the delivery of customer services to the community. The Code of Conduct sets the expectation for employees to treat customers and other employees with respect and to be sensitive to their rights.

Research and development

Ausgrid continues to support innovation and research for emerging energy technologies by working with major equipment suppliers to review new solutions for the electricity network and maintain links with universities and other research institutions. We are a member of the Australian Strategic Technology Program which fosters collaborative research into energy technologies across a number of projects and institutions. Ausgrid is also a participant in CIGRE (International Council on Large Electric Systems), (CEATI) Centre for Energy Advancement through Technological Innovation and the (API) Australian Power Institute.

Operation Jarah

Following an anonymous complaint in March 2013, the NSW Independent Commission Against Corruption (ICAC) commenced an investigation into allegations that a former Ausgrid engineer, Mr Phillip Cresnar, had received cash and other benefits from contractors whilst employed by the organisation. Known as Operation Jarah, investigations also included a public enquiry which was held in January 2015.

The ICAC completed its investigation and tabled its report to the NSW Parliament on 3 June 2015. It was found that the former employee and a number of the contractors involved had engaged in corrupt conduct including receipt of corrupt commissions or rewards. These individuals were referred to the Director of Public Prosecutions for possible prosecution under the Crimes & ICAC Acts for corrupt conduct-related offences, giving false testimony/evidence and disclosing information about an ICAC investigation. The report also made three recommendations to Ausgrid aimed at improving its existing corruption prevention activities. These recommendations are currently being implemented.

MORE THAN

\$1 MILLION

SPENT ON ELECTRICAL
PUBLIC SAFETY CAMPAIGNS

802

SCHOOLS TOOK PART IN
ELECTRICITY SAFETY WEEK
IN SEPTEMBER 2014

\$40,000

WAS DONATED TO SYDNEY
BURNS FOUNDATION RESEARCH

\$158,000

WAS DONATED BY 890 EMPLOYEES
TO AUSGRID COMMUNITY
INVESTMENT PROGRAM

Environment

We manage the impact of our past, present and future actions by ensuring we meet our environmental regulations. Through our Environmental Sustainability Improvement Plan, we also aim to improve ongoing environmental performance.

Environmental management and compliance

For 20 years, Ausgrid has managed its environmental performance through our formal Environmental Management System. However, in 2014/15, Ausgrid developed a new Board Environment Policy and Statement of Environmental Commitment which details how Ausgrid aims to comply with environmental laws, and how we seek to minimise the impact from our past, present and future activities. We also provided more information about our commitment to the environment on our website, www.ausgrid.com.au including a Statement of Environmental Commitment.

The environmental management team prioritises projects, training and management strategies in the Environmental Sustainability Improvement Plan and in 2014/15, 100 percent of the plan was completed. One of the projects included a Review of Environmental Factors (REF) for routine vegetation maintenance works. A condition of the REF is that Ausgrid employees and contractors check Ausgrid's online geographic information system before starting works and follow any relevant controls for high impact activities in sensitive areas.

Working with environmental regulators

Ausgrid continued work with environmental regulators in 2014/15. For example a nest of imported red fire ants, a serious exotic pest, was detected at Port Botany, Sydney in November 2014. As a result some works were prohibited within a two-kilometre control area, so Ausgrid worked with the Department of Primary Industries (DPI) to inspect Ausgrid premises inside the control area. The pest was not detected and Ausgrid will continue to work with the DPI until the control order is lifted.

In December 2014, the Environmental Protection Agency (EPA) requested information to update its air emissions inventory for the Greater Metropolitan Region. Ausgrid completed the comprehensive air emissions survey for five of our premises that held an environmental protection licence in 2013. This includes Homebush, West Gosford, Wallsend and Maitland depots and the Botany Bay cable project.

The EPA undertook a risk assessment of each licensed depot for its new environmental risk-based licensing system. Ausgrid applied to surrender its licence for the Wallsend and West Gosford depots because waste storage volumes at these sites have been reduced below licence thresholds. We also surrendered our licence for mobile oil plant following clarification from the EPA that these items do not need a licence.

Water, power and fuel use

Changes to vehicle policies and a continued focus on fuel use led to a 27 percent reduction in total fuel consumption to 5,747 kilolitres. This is a reduction of 2,082 kilolitres from the previous year. The use of diesel has increased over the past year to 79 percent of all fuel used. Use of E10 accounted for 690 kilolitres used, while there were 499 kilolitres of unleaded petrol and 4 kilolitres of LPG used.

Water use at Ausgrid buildings was about 167 million litres for the year, similar to 2013/14. Electricity use at Ausgrid's office buildings and depots was 25,184 megawatt hours, a decrease of 4 percent on the previous year. Natural gas use in Ausgrid buildings was 8,213 gigajoules, down 15 percent from the previous year. The efficiencies were largely achieved due to a continued focus on resource efficiency and a 16 percent reduction in employees since last year.

Waste reduction and purchasing policy

In July 2014, the NSW Minister for the Environment announced the new Government Resource Efficiency Policy (GREP), which replaced the previous Government Sustainability Policy and the Waste Reporting and Purchasing Policy (WRAPP). The GREP is a whole-of-government policy that outlines sustainability actions for general sector government agencies. The GREP has 13 targets divided into four areas: energy, water, waste and clean air. State-owned corporations such as Ausgrid are not required to prepare GREP reports, however, Ausgrid monitored its progress against the new targets.

6,598

ENVIRONMENTAL TRAINING COURSES COMPLETED

227_{MW}

IS THE TOTAL CAPACITY OF SOLAR SYSTEMS RECORDED AS CONNECTED TO THE AUSGRID ELECTRICITY NETWORK

202

HERITAGE-LISTED BUILDINGS MANAGED BY AUSGRID

281,000_{LTRS}

OF WASTE OIL RECYCLED

1,159

ELECTRONIC WASTE ITEMS RECYCLED

870_{TONNES}

COPPER AND ALUMINIUM CABLE RECYCLED

The reuse and recycling of materials helped reduce the waste generated by Ausgrid. Vegetation was also recycled. There were about 2,651 tonnes of used equipment and materials in the reclamation program, which included more than 500 tonnes of other metals. Recycling metals not only reduced the need to use raw materials such as iron ore, limestone and coal, but also requires 25 percent less energy input to make new products.

In 2014/15, 281,000 litres of waste oil and over 1,159 items of electronic waste were recycled. Ausgrid has also continued to recycle powerlines when they were replaced. In 2014/15, 870 tonnes of copper and aluminium cable were sent to recyclers. This was equal to about 1,300 kilometres of low-voltage powerlines.

Ausgrid's new waste contractor operates a bioreactor in Tarago, where waste is processed to maximise the production of biogas, which is used to generate electricity. The waste heat produced from this process is used for barramundi farming – providing Canberra with a source of sustainable local fish. Waste sent to the facility was transported from Sydney by train rather than trucks.

Ausgrid maintained its FluoroCycle signatory status for recycling all its mercury containing streetlight lamps.

A uniform recycling program was established ahead of the new arc-rated workwear that was rolled out in 2015. More than three tonnes of used, old uniforms were donated to a charity called The Community Helping Hand Association. Used woollen items such as jumpers and beanies were donated to local wildlife organisations.

Expired first aid items were again used for first aid training sessions or donated for treating animals by wildlife organisations. Ausgrid's online spare item register continued to facilitate recycling between various locations and 33 percent of total office supplies purchased were on "Earth saver" program products.

Environmental incidents

Ausgrid's environmental management team investigated 91 incidents in 2014/15. The majority of incidents involved oil filled electrical equipment, fuels and chemicals (53 percent), followed by noise complaints (20 percent) and fluid filled cables (7 percent). Of these, four environmental incidents were required to be reported to the Environment Protection Authority (EPA) under the definition of the NSW Protection of the Environment Operations (POEO) Act 1997.

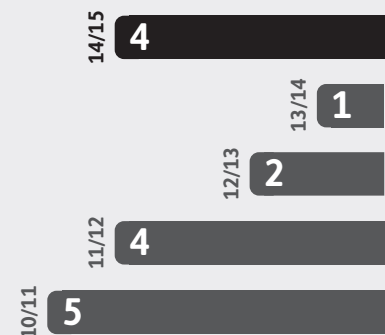
Threatened species

Since 2008, we have been managing 1.5 hectares of an Eastern Suburbs Banksia Scrub endangered ecological community at our sub-transmission substation and switching station at Matraville. By removing weeds, controlling erosion and monitoring, about 80 percent of the area has been covered with native vegetation of varying strengths and diversity.

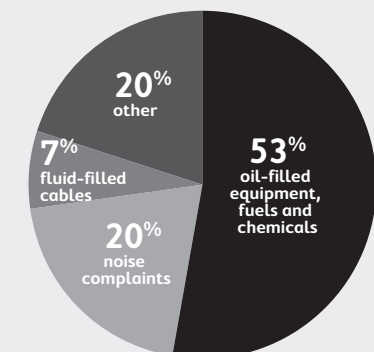
PCBs

Electricity transformers contain oil to assist in the safe operation of electrical equipment. Historically, transformer oil contained polychlorinated biphenyl (PCB), a substance now known to be hazardous. In 1989, we began a program to remove PCBs from our network, and scheduled PCBs from zone transformers in line with the NSW Environmentally Hazardous Chemicals Act 1985. Since then, we have removed all known pure PCBs from our network. In 2014/15, 271,654 litres of PCB-contaminated oil and 392 tonnes of PCB-contaminated equipment were removed from the network and sent to a licensed facility for recovery.

Reportable environmental pollution incidents



Environmental incidents



Governance

Ausgrid is a State Owned Corporation subject to a significant number of statutory and legislative requirements. The Board has overall responsibility for corporate governance at Ausgrid.

Governance and management structure

Ausgrid continues to operate as a separate legal entity but is managed, along with Endeavour Energy and Essential Energy, by a joint Board of Directors and common Chief Executive Officer (CEO). These three network companies operate under a shared group management model known as Networks NSW. Each company remains focussed on the objectives of the State Owned Corporations Act, including:

- operating a safe, reliable and sustainable network
- operating at least as efficiently as any comparable privately owned business

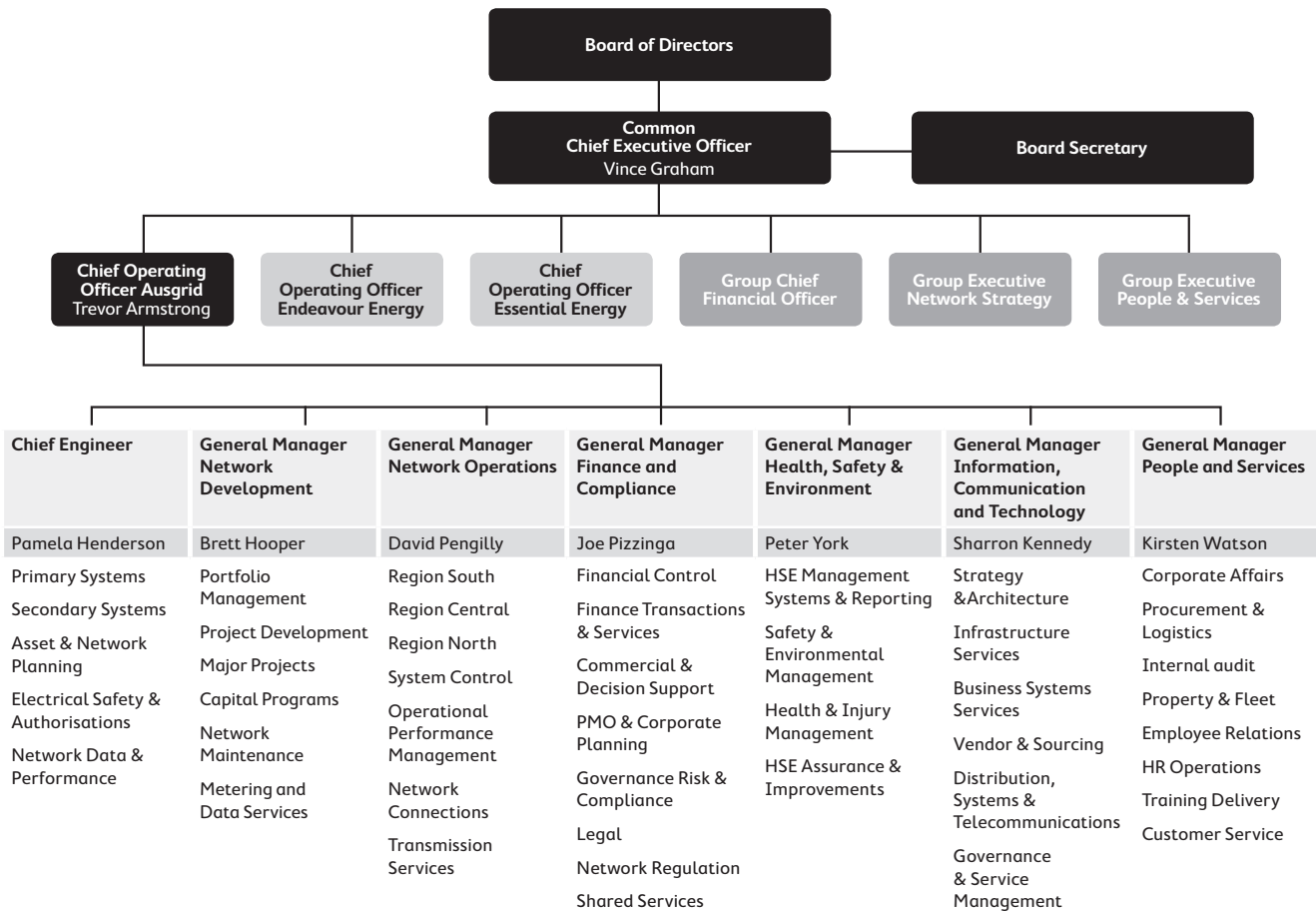
- maximising the value of the company to the State
- balancing commercial, social, environmental and customer expectations.

Networks NSW consists of a shared group management structure. The Executive Leadership Group (ELG) includes the CEO, Group Executive Managers, the Chief Operating Officer from each network company and the Board Secretary.

The CEO reports to the board, which in turn is accountable to the two voting shareholders, the NSW Treasurer and the NSW Minister for Finance and Services, who each hold one share in each of the

three companies for and on behalf of the NSW Government. The Portfolio Minister of each of the network companies is the NSW Minister for Energy.

The board is responsible for setting the overall strategic direction and performance targets, and monitoring the implementation of the strategy by the three organisations. The CEO leads the ELG in delivering the approved strategy and achieving the performance targets set by the board. Ausgrid is a State Owned Corporation subject to a significant number of statutory and legislative requirements. Our Board has overall responsibility for corporate governance at Ausgrid.



Board of Directors – 2014/15

Board of Directors (as at 30 June 2015)

Roger Massy Greene BSc BE (Hons) MBA, FAICD, FIE (Aust)

Chairman

Term: 1 July 2012 to 30 June 2018

Chairman of the board from 1 July 2012

Chairman, Nominations Committee

Member, Audit and Risk Committee

Other Directorships:

- Endeavour Energy, Chairman
- Essential Energy, Chairman
- Cranbrook School, Vice President
- Dovose Pty Limited, Director and Secretary
- Eureka Benevolent Foundation, Chairman
- Eureka Capital Partners Pty Ltd, Chairman
- ICC Holdings Pty Limited, Director
- Illawarra Coke Company Pty Limited, Director
- OneVentures Pty Ltd, Director
- Salvation Army Sydney Advisory Board (from April 2015)
- The Hunger Project Australia, Director

Peter Dodd PhD, MSc MCom, BCom, Dip Ed
Non Executive Director

Term: 1 July 2012 to 31 December 2016

Chairman, Audit and Risk Committee

Member, Nominations Committee

Other Directorships:

- Endeavour Energy, Director,
- Essential Energy, Director
- Collgar Wind Farm Pty Ltd, Director
- CWF Holding Pty Ltd, Director
- Energy Industries Superannuation Scheme (EISS), Chairman
- Investa Listed Funds Management Limited (ILFML), Director

- Macquarie University Group of companies, Director
- Peter Dodd Pty Ltd, Director
- The Centre for Independent Studies Ltd, Director

Diana Eilert BSc, MComm, GAICD

Non Executive Director

Term: 23 June 2014 to 22 June 2017

Other Directorships:

- Endeavour Energy, Director,
- Essential Energy, Director
- AMP Life Ltd, Director
- Botanic Gardens, Trustee
- Navitas
- Queensland Urban Utilities, Director
- Sydney Festival, Director
- The National Mutual Life Association of Australia Ltd, Director
- Veda Group Ltd, Director

Philip Garling B.Build, FAIB, FAICD, FIE (Aust)

Non Executive Director

Term: 1 January 2013 to 31 December 2015

Chairman, Safety, Human Resources and Environment Committee

Other Directorships:

- Endeavour Energy, Director,
- Essential Energy, Director
- Charter Hall Funds Management Limited, Director
- Charter Hall Limited, Director
- Downer EDI Limited, Director
- Tellus Holdings Limited, Chairman
- Water Polo Australia Limited, President

Laura Reed BBus, MBA, FCPA

Non Executive Director

Term: 1 January 2013 to 31 December 2015

Member, Audit and Risk Committee

Member, Nominations Committee

Other Directorships:

- Endeavour Energy, Director,
- Essential Energy, Director
- ATCO Australia Pty Limited, Director
- ATCO Gas Australia GP Pty Limited, Director
- Canadian Utilities Limited, Director (an ATCO company)
- MAPS Group, Director

Patrick Strange PhD BE (Hons)

Non Executive Director

Term: 25 November 2013 to

24 November 2016

Member, Safety, Human Resources and Environment Committee

Other Directorships:

- Endeavour Energy, Director,
- Essential Energy, Director
- Chorus Limited, Director (7 April 2015)
- Mighty River Power, Director
- NZX, Director (1 May 2015)
- WorkSafe NZ, Director

Vince Graham BE (Civil), Grad Dip Mgmt, FAICD

Chief Executive Officer and Executive Director

Ex officio member Audit and Risk Committee and Safety, Human Resources and Environment Committee

Other Directorships:

- Endeavour Energy, CEO & Executive Director
- Essential Energy, CEO & Executive Director
- Networks NSW Pty Limited, Chairman
- Catholic Care Social Services Council, Diocese of Parramatta, Member
- Energy Supply Association of Australia, Director
- Graham Management Services Pty Limited, Director (inactive)

Board and Board Committee meetings held in 2014/2015

1 July 2014 to 30 June 2015 Directors' Attendance Schedule

	Joint Board of Directors meetings		Audit & Risk committee		Safety Human Resources and Environment committee		Nominations committee	
Director	A	B	A	B	A	B	A	B
R Massy-Greene	14	14	7	7	–	4 [#]	–	–
P Dodd	14	14	8	8	–	–	1	1
D Eilert	14	13	–	1 [#]	3	1	–	1 [#]
P Garling	14	14	–	1 [#]	4	4	–	1 [#]
L Reed	14	13	8	8	–	–	1	1
P Strange	14	14	–	1 [#]	4	4	–	1 [#]
V Graham*	14	13	7	6	4	3	–	–

A Indicates number of meetings held during the period the Director was entitled to attend

B Indicates the number of meetings attended by the Director during the period

Attended meetings while not a member of the Committee

* The CEO is an Ex-officio member of the Audit & Risk and Safety, Human Resources and Environment Committees. The CEO was on leave for one Joint Board of Directors meeting and one Audit & Risk committee meeting when the Acting CEO attended.

Governance (cont.)

Governance

Ausgrid is a statutory State owned corporation, established under the Energy Services Corporations Act 1995 (NSW) and the State Owned Corporations Act 1989 (NSW). We are governed, principally, by these two statutes mentioned and our Constitution.

Good governance is a critical prerequisite for a high performance organisation.

It provides a platform for a sustainable future and reflects board commitment to high standards of business integrity, ethics and professionalism across all activities.

Good governance ensures the delivery of outcomes sought by shareholders; supports Ausgrid's people and business operations; and ensures sound ethical, financial and risk management practices to benefit Ausgrid's customers and effective compliance and auditing programs.

Joint Board of Directors

In 2014/15 Ausgrid, Endeavour Energy and Essential Energy continued to operate as separate legal entities although they were managed by a Joint Board of Directors and common Chief Executive Officer (CEO).

All members of the Joint Board, with the exception of the Chief Executive Officer, are appointed by the voting shareholders for terms of up to five years. Appointments may be renewed at the discretion of the voting shareholders.

Each non-executive director's remuneration is determined by the voting shareholders and is paid by Ausgrid. The Chief Executive Officer is not entitled to any additional remuneration for being an executive director.

The role and responsibility of the Joint Board

The Joint Board is responsible for governance and, ultimately, the performance of the company. The Joint Board gives direction and exercises judgment in setting the company's strategy and objectives, and is responsible for overseeing its implementation. The Joint Board's role is to govern the company rather than to manage it. The CEO is responsible to the Joint Board for the day-to-day management of the company and leads the Executive Leadership Team in delivering the approved strategy and achieving the performance targets set by the Joint Board.

In governing the company the directors must act in the overall best interests of the company, although in respect of any particular issue the Joint Board may act in the best interests of the three companies as a combined entity (as if the individual businesses were being operated as parts of a single enterprise) even if acting in that way is not in the best interests of one company.

The Joint Board operates at all times in accordance with its Charter which is designed to provide an overarching statement of board authority and accountability for governance and management of Ausgrid, consistent with its Constitution and applicable legislation. The Directors of the Joint Board have adopted Board Policies that implement the Board Charter and have declared that they will be bound by the company's Code of Conduct

Joint Board Committees

The role of the Joint Board is to provide strategic guidance and effective oversight of management. In undertaking this role, the Joint Board has established the following committees:

Audit and Risk Committee

The Audit and Risk Committee meets at least five times per year. The committee's responsibilities cover matters relating to the financial affairs and business risks, internal and external audits, risk management, compliance and fraud prevention. In addition, the committee examines any other matters referred to it by the Joint Board.

Safety, Human Resources and Environment Committee

The Safety, Human Resources and Environment Committee meets at least four times per year. The committee assists the board in fulfilling its responsibilities with regard to work health and safety and environmental practices, and to discharge the Joint Board's responsibilities of oversight and corporate governance in relation to human resources matters. In addition, the Committee examines any other matters referred to it by the Joint Board.

Nominations Committee

The Nominations Committee meets as required and assists the Joint Board in fulfilling its responsibilities with regard to director appointments and re-appointments. The Nominations Committee consists of the Chairman of the Joint Board and two non-executive directors. Membership is subject to rotation so that non-executive directors are not participating in the review of their own re-appointment.

Director indemnity and insurance

Under the State Owned Corporations Act 1989 and the Company's Constitution, Ausgrid may, with the approval of its Shareholder Ministers, indemnify its directors against liabilities incurred in the course of their duties. This indemnity does not cover the director if the liability arises out of conduct involving lack of good faith. Ausgrid's non-executive Directors have been granted indemnity in accordance with Shareholder approval and the NSW Treasury State Owned Corporation Indemnity Policy. Ausgrid also has in place a Directors' and Officers' liability and professional indemnity insurance policy.

Executive Leadership Team

Chief Operating Officer

Trevor Armstrong BE, GAICD, FIE(Aust)

Chief Engineer

Pamela Henderson BE(Hons), GradDipMgmt

General Manager Finance and Compliance

Joe Pizzinga BComm, AssocDipAcc, CPA

General Manager Health, Safety and Environment

Peter York BE, GradDipAdmin

General Manager Information Communication and Technology

Sharron Kennedy MBA, GAICD

General Manager Network Development

Brett Hooper BE

General Manager Network Operations

David Pengilly BE

General Manager People and Services

Jane Mills BComm for the period
1 July 2014 to 14 November 2014

Kirsten Watson BBus (Org Comm),
EMPA
from 9 March 2015

Michael McHugh BA acted for the period
15 November 2014 to 8 March 2015

Insurance

Ausgrid reviews the adequacy of insurance policy coverage and limits during each annual insurance renewal process. We ensure all participating insurers meet our counter-party requirements.

Compliance

Ausgrid has in place effective internal control processes monitored by its board of directors, and administered by its management and staff to deliver corporate objectives and ensure that applicable laws and regulations, codes and policies are complied with, and that financial reporting is accurate.

Codes of Conduct

Ausgrid's Code of Conduct outlines the way it does business. It includes five values – safety excellence, respect for people, customer and community focus, continuous improvement and act with integrity. It also includes guiding behaviours that underpin these values. Ausgrid's Code of Conduct is available at www.ausgrid.com.au.

Ausgrid also has a Computing Code of Conduct and an Environmental Code of Conduct.

These three codes of conduct are a model for the behaviours and work standards expected from employees and contractors to act safely, with reliability, integrity and with respect for each other, customers and the community.

Statement of business ethics

We developed and communicated to our suppliers a Statement of Business Ethics, which sets out key business principals we apply in our dealings with suppliers. We expect that our business partners, suppliers and contractors act according to these same principals. The Statement of Business Ethics is available at www.ausgrid.com.au.

Internal audit

The board and executive leadership team are committed to the operation of an objective and independent internal audit function. Internal Audit assists management to achieve Ausgrid's statutory and business objectives by adopting a disciplined approach to evaluating and improving risk management, controls and governance processes.

External audit

The Auditor General of New South Wales provides independent external audit services on the financial statements through the Audit Office of New South Wales. The Audit and Risk Committee reviews the NSW Audit Office Client Service Plan, issues raised in the Annual Management Letter and the results of the annual audit of financial statements.

Privacy

Ausgrid complies with the Australian Privacy Principles which form part of the Privacy Act 1988 (Cth) and govern how organisations handle personal information. Ausgrid's Privacy Policy is available on the website, www.ausgrid.com.au.

Fraud and corruption

Maintaining ethical behaviour is core to effective corporate governance. This requires leadership by example to sustain the highest standards of conduct while building a culture of performance aligned to integrity and behaviours that underpin Ausgrid's values. Ausgrid is committed to maintaining high standards of accountability and ethics, preventing fraud and being free of corruption in both business activities and when making business decisions. Ausgrid has policies and procedures in place to help prevent and detect fraud or corruption.

The Fraud and Corruption Control Plan and fraud control policies and procedures provide a mechanism for reporting fraud or corruption under the *Public Interest Disclosure Act 1994*.

Achieve the financial plan

Financial Results

	2014/15 result	2014/15 SCI	Variation to SCI	2013/14 result
Operating Revenue (\$m)	3,173.5	3,002.1	171.4	3,299.6
EBIT (\$m)	1,198.7	1,025.3	173.4	1,371.4
EBITDA (\$m)	1,770.2	1,649.9	120.3	2,037.2
Net Profit After Tax (\$m)	420.1	269.2	150.9	607.5
Dividend (\$m)	413.0	404.2	8.8	381.7
Total Distributions to Government (\$m)	589.7	519.6	69.4	548.8
Return on Equity (%)	9.4	6.0	3.3	14.1
Capital Expenditure (\$m)	630.7	1,219.0	(588.3)	821.9

Financial Highlights

Ausgrid achieved a Net Profit After Tax (NPAT) of \$420.1 million in FY14/15, \$150.9 million higher than budget and \$187.4 million lower than the previous year's result. The declining NPAT result when compared to FY13/14 was due to lower network revenues mainly due to lower prices (2.8%), higher operating expenditure mainly related to the April storms and restructuring costs. Other non-energy revenue was also lower mainly due to the sale of Ausgrid's 570 George Street Head Office Building in 2013/14.

The higher than budgeted NPAT result was primarily due to better than anticipated performance from the network business, mainly reflecting an overall favourable energy volume variance and favourable price variance, and lower depreciation and borrowing costs resulting from lower than planned capital expenditure incurred for both 2013/14 and 2014/15.

In April 2014 the AER published a transitional regulatory determination and approved network charges to apply for the FY 14/15.

The AER's final determination was published in April 2015 and applied retrospectively to 1 July 2014.

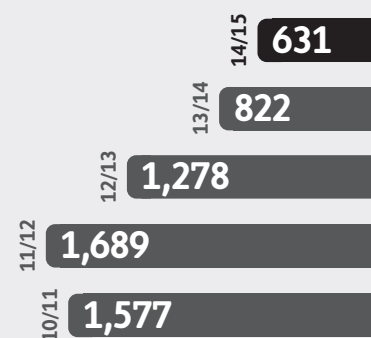
As a consequence of the AER's retrospective reduction in network revenue, \$409 million of revenue collected from Ausgrid's customers in the FY 14/15 is being returned to customers through lower charges from 1 July 2015.

Return on Shareholders' funds

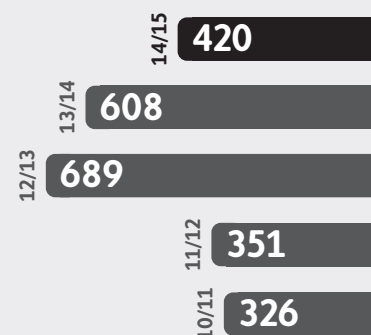
Total company assets were \$16.1 billion as at 30 June 2015 and the return on these assets was 7.4 percent. Ausgrid achieved a 9.4 percent return on equity which was higher than the Statement of Corporate Intent target of 6.0 percent reflecting the higher net profit. Ausgrid's distributions to the NSW Government were \$589.7 million recognising the payment of \$118.3 million related to the sale of Ausgrid's 570 George Street Head Office Building and reflecting the dividend provided at year end totalling \$294.8 million and income tax expense totalling \$176.7 million.

Total capital expenditure of \$630.7 million was \$588.3 million less than budget, reflecting lower expenditure on system assets, IT&T, fleet and non system buildings. The lower than budgeted capital expenditure was a result of the continued detailed review of our capital program as a result of the reductions in energy demand and customer growth experienced over the last couple of years.

Capital expenditure (\$ millions) (excluding capitalised interest)



Net profit after tax (\$ millions)



Financial Statements

Ausgrid and Controlled Entity

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Ausgrid and Controlled Entity

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Ausgrid and Controlled Entity

Statement of Comprehensive Income

For the year ended 30 June 2015

		Consolidated Entity & Ausgrid	
	Notes	2015 \$M	2014 \$M
Profit and Loss			
Revenue	2	3 173.5	3 299.6
Expenses excluding finance costs	3(a)	(1 964.8)	(1 963.2)
Finance costs	3(b)	(601.9)	(596.9)
(Loss)/Gain on disposal	4	(10.0)	35.1
Profit before income tax		596.8	774.6
Income tax expense	5	176.7	167.1
Profit for the year		420.1	607.5
Other Comprehensive Income			
Items that will not be reclassified subsequently to profit or loss			
Net (decrease)/increase in revaluation reserve		(15.8)	5.4
Superannuation defined benefits actuarial gains		109.7	30.6
Income tax expense relating to items that will not be reclassified	5	(28.2)	(10.8)
		65.7	25.2
Items that will be reclassified subsequently to profit or loss			
Net gains (losses) on cash flow hedges		1.4	(8.9)
Income tax (expense)/benefit relating to items that will be reclassified	5	(0.4)	2.7
		1.0	(6.2)
Total other comprehensive income for the year, net of tax		66.7	19.0
Total comprehensive income for the year		486.8	626.5

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

Ausgrid and Controlled Entity

Statement of Financial Position

As at 30 June 2015

		Consolidated Entity & Ausgrid	
	Notes	2015 \$M	2014 \$M
Assets			
Current assets			
Cash and cash equivalents	7	–	1.0
Trade and other receivables	8	486.3	587.3
Inventories		37.9	34.7
Derivative financial instruments	9	–	153.5
Other current assets	10	6.2	22.4
Assets classified as held for sale	11	58.2	53.0
Total current assets		588.6	851.9
Non-current assets			
Property, plant and equipment	12	15 309.9	15 171.0
Intangible assets	13	185.3	223.1
Total non-current assets		15 495.2	15 394.1
Total assets		16 083.8	16 246.0
Liabilities			
Current Liabilities			
Trade and payables	14	450.6	475.5
Borrowings	15	410.5	527.7
Derivative financial instruments	9	–	163.5
Current tax liabilities		5.6	62.0
Provisions	16	678.5	826.8
Deferred government grants		1.5	1.3
Other current liabilities	17	15.1	27.1
Total current liabilities		1 561.8	2 083.9
Non-current liabilities			
Borrowings	15	8 581.6	8 168.6
Deferred tax liabilities	6	1 143.6	1 116.2
Provisions	16	237.5	388.1
Deferred government grants		46.8	48.5
Other non-current liabilities	17	3.4	5.4
Total non-current liabilities		10 012.9	9 726.8
Total liabilities		11 574.7	11 810.7
Net assets		4 509.1	4 435.3
Equity			
Contributed equity		402.1	402.1
Reserves		2 929.2	2 945.9
Retained earnings		1 177.8	1 087.3
Total Equity		4 509.1	4 435.3

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

Ausgrid and Controlled Entity

Statement of Changes in Equity

For the year ended 30 June 2015

Consolidated Entity & Ausgrid						
	Notes	Contributed Equity \$M	Asset Revaluation Reserve \$M	Hedge Revaluation Reserve \$M	Retained Earnings \$M	Total \$M
Balance at 1 July 2013		402.1	2 989.2	–	799.2	4 190.5
Profit for the year		–	–	–	607.5	607.5
Other comprehensive income:						
Net increase/(decrease) in revaluation reserve, net of tax		–	3.8	–	–	3.8
Superannuation actuarial gains/(losses), net of tax		–	–	–	21.4	21.4
Effective portion of changes in fair value of cash flow hedge, net of tax		–	–	(6.2)	–	(6.2)
Total other comprehensive income		–	3.8	(6.2)	21.4	19.0
Total comprehensive income for the year		–	3.8	(6.2)	628.9	626.5
Transactions with owners recorded directly in Equity						
Dividend provided for or paid	16	–	–	–	(381.7)	(381.7)
Transfers to retained earnings, net of tax		–	(40.9)	–	40.9	–
Total transactions with owners		–	(40.9)	–	(340.8)	(381.7)
Balance at 30 June 2014		402.1	2 952.1	(6.2)	1 087.3	4 435.3
Profit for the year		–	–	–	420.1	420.1
Other comprehensive income:						
Net increase/(decrease) in revaluation reserve, net of tax		–	(11.1)	–	–	(11.1)
Superannuation actuarial gains/(losses), net of tax		–	–	–	76.8	76.8
Effective portion of changes in fair value of cash flow hedge, net of tax		–	–	1.0	–	1.0
Total other comprehensive income		–	(11.1)	1.0	76.8	66.7
Total comprehensive income for the year		–	(11.1)	1.0	496.9	486.8
Transactions with owners recorded directly in Equity						
Dividend provided for or paid		–	–	–	(413.0)	(413.0)
Transfers to retained earnings, net of tax		–	(6.6)	–	6.6	–
Total transactions with owners		–	(6.6)	–	(406.4)	(413.0)
Balance at 30 June 2015		402.1	2 934.4	(5.2)	1 177.8	4 509.1

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

Ausgrid and Controlled Entity

Statement of Cash Flows

For the year ended 30 June 2015

	Notes	Consolidated Entity & Ausgrid	
		2015 \$M	2014 \$M
Cash flows from operating activities			
Receipts from customers		3 375.1	3 484.3
Payment to suppliers and employees		(1 692.7)	(1 580.0)
Interest received		0.5	1.3
Interest paid		(616.6)	(634.0)
Income taxes paid		(234.3)	(377.2)
Net cash inflow (outflow) from operating activities	26	832.0	894.4
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(640.1)	(833.4)
Proceeds from sale of property, plant and equipment		48.4	154.2
Net cash inflow (outflows) from investing activities		(591.6)	(679.2)
Cash flows from financing activities			
Proceeds from borrowings		424.9	497.0
Repayment of borrowings		(167.4)	(330.0)
Dividends		(500.0)	(462.6)
Net cash inflow (outflow) from financing activities		(242.5)	(295.6)
Net increase (decrease) in cash and cash equivalents		(2.2)	(80.4)
Cash and cash equivalents at the beginning of the year		1.0	81.4
Cash and cash equivalents at the end of the year	7, 15	(1.2)	1.0

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

Ausgrid and Controlled Entity

Notes to financial statements

For the year ended 30 June 2015

1. SIGNIFICANT ACCOUNTING POLICIES

a. Reporting entity

Ausgrid is a New South Wales state owned corporation (for-profit) established on 1 March 1996 by the *Energy Services Corporations Act 1995*. The consolidated financial statements of Ausgrid for the year ended 30 June 2015 comprises the Corporation and its subsidiary (together referred to as the "consolidated entity").

b. Statement of compliance

The financial statements comprise a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB), the requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015*, and the *State Owned Corporations Act 1989*. The financial statements of Ausgrid (the Corporation) also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

c. Basis of preparation

(i) Basis of measurement

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, non-current assets held for sale, provisions and property, plant and equipment.

(ii) Comparative figures

When the presentation or classification of items in the financial statements is amended in respect of changes in the current year, the comparative amounts are reclassified to enhance comparability unless the reclassification is impracticable.

(iii) Presentation currency

The financial statements are presented in Australian dollars. The amounts shown in the accounts have been rounded to the nearest tenth of a million dollars, unless otherwise stated. The Corporation is exempt from Part 2 paragraph 5 of the *Public Finance and Audit Regulation 2015*.

d. Fair value measurement

The Corporation measures financial instruments (such as, derivative financial instruments), provisions and items of property, plant and equipment, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 19.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Corporation.

The fair value of an asset or liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Corporation determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

e. Use of estimates and judgements

The preparation of financial statements require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of AASBs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below and in the various respective notes:

Note 1(h)	– unread meters
Note 1(m), 12	– Property, plant and equipment
Note 1(n)	– Intangible assets
Note 1(w), 16	– Provisions
Note 9, 18	– Financial instruments
Note 27	– Superannuation – Defined benefits plan

(i) Investment properties

Ausgrid leases out a portion of its properties. These properties are in excess of current usage requirements and are held for future use as owner occupied properties. Therefore these properties fall outside the definition of investment properties and are treated as leases of property, plant and equipment.

Unless otherwise indicated, the accounting policies set out below have been applied consistently to all periods presented in the financial statements.

f. Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

The Ausgrid Group consists of the parent entity Ausgrid and its wholly owned subsidiary Ausgrid Pty Ltd. Both entities are incorporated in Australia. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

For the year ended 30 June 2015, there were no significant differences between the parent entity and the consolidated entity financial information. As a result, the information presented and disclosed in the financial statements is for both the parent entity and the consolidated entity. Where significant differences exist between the parent entity and the consolidated entity financial information, separate information will be presented or disclosed in the financial statements.

(ii) Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Ausgrid, Endeavour Energy and Essential Energy have entered into a joint venture agreement. A legal entity Networks NSW Pty Limited has been used as the vehicle for this joint venture. Networks NSW Pty Limited is incorporated in Australia (refer to Note 21 for details).

g. Income tax

Ausgrid and its controlled entity are exempt from federal income tax under the Income Tax Assessment Acts. However, they are subject to the National Tax Equivalent Regime which is based on the Income Tax Assessment Acts. Tax equivalents are payable to the Office of State Revenue.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit and loss except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

h. Revenue recognition

Revenue is recognised when, the amount of revenue can be reliably measured, and to the extent that it is probable that the future economic benefits will flow to the entity. Revenue for the sale of goods is recognised when significant risks and rewards of ownership of the goods has passed to the buyer. Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

(i) Network use of system (NUOS) revenue

Ausgrid recognises revenue involving the rendering of electricity supply services in profit and loss on an accrual basis based on the consumption of electricity. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or if the costs incurred or to be incurred cannot be measured reliably.

(ii) Unread meters

Unread Meters accrual is an estimate of the network use of system charges associated with energy consumed and not invoiced at 30 June. The accrual for Unread Meters includes both meters that have been read but not yet billed and meters that have not been read as at balance date. The methodology used by Ausgrid reflects a bottom up approach where an accrual is estimated for all active sites within the Ausgrid distribution area. The accrual is calculated for each component of the Network Price including Energy components such as Peak, Shoulder & Off Peak, Capacity and Network Access Charge.

(iii) Transmission revenue

Transmission revenue represents the financial transfer from TransGrid to Ausgrid relating to the utilisation by TransGrid of Ausgrid's transmission assets.

(iv) Excess/shortfall in regulatory revenue

Network use of system revenue comprises of the following three components:

Ausgrid and Controlled Entity

Notes to financial statements

For the year ended 30 June 2015

- Distribution use of system revenue – with effect from 1 July 2014 Ausgrid started operating under a revenue cap pricing framework where revenue from distribution services exceeds or is below the Maximum Allowed Revenue (MAR) as determined by the Australian Energy Regulator (AER) and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.
- Transmission revenue – where revenue related to transmission costs, which operates as a pass-through cost to customers exceeds or is below the actual transmission costs paid to transmission network service providers and embedded generators and adjustments will be made to future prices to reflect this excess or shortfall, no liability/asset is recognised, as such an adjustment relates to the provision of future services.
- Climate Change Fund revenue – where revenue related to the receipt of contributions to the Climate Change Fund, which operates as a pass-through cost to customers, exceeds/ is below the actual contributions paid to the Office of Environment & Heritage, and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.

It is estimated that, at 30 June 2015, Ausgrid's NUOS exceeded the maximum amount permitted by regulatory agreement by \$58.2m and future prices will be adjusted to reflect this excess.

- (v) Contributions for capital works
- This represents cash and non-cash capital contributed by customers and developers, mainly towards the capital cost of electricity connections. Cash and non-cash capital contributions have been reported in order to comply with Australian Accounting Interpretation 18 *Transfers of Assets from Customers*.

Cash capital contributions are initially recorded as liabilities. Once the network asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to revenue, and the asset is recognised at fair value.

Contributions of non-current assets are recognised as revenue and an asset when Ausgrid gains control of the asset. The fair value of contributed assets is recognised at the date at which control is gained and the assets are ready for use.

(vi) Solar Bonus Rebate Scheme Recovery

Ausgrid recognises solar revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of Ausgrid's activities.

(vii) Government grants

Government grants are recognised in the Statement of Financial Position initially as deferred income when they are received and Ausgrid complies with the conditions attaching to them, in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

Grants that compensate Ausgrid for the cost of an asset are recognised in profit and loss as revenue on a systematic basis over the useful life of the asset.

Grants that compensate Ausgrid for expenses incurred are recognised as revenue in profit and loss in the same period in which the expenses are incurred.

(viii) Other revenue

Other revenue consists of revenue from the Transitional Service Agreement (TSA), monopoly fees, miscellaneous network charges and other miscellaneous income. The TSA is the service agreement between Ausgrid and EnergyAustralia for Ausgrid to provide agreed services on a transitional basis to assist EnergyAustralia's operation of the retail business. This agreement ceased during the 2014/15 financial year.

i. Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash balances and call deposits. For the purposes of the Statement of Cash Flows, cash includes cash assets net of bank overdraft.

j. Trade and other receivables

Trade and other receivables are financial assets recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Collectability of trade receivables is reviewed on an ongoing basis in accordance with AASB 139 *Financial Instruments*. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the entity will not be able to collect the receivables, such as evidence of financial difficulties of the debtor, and default in payments.

k. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the average purchase price of each item. In the case of manufactured stock for internal use, costs include direct labour, materials and a portion of variable overhead which comprises the cost of bringing the inventories to their appropriate location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

l. Assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell, if their carrying amount will be recovered principally through a sale transaction as opposed to use. Once classified as held for sale, depreciation and amortisation ceases. For an asset or disposal group to be classified as held for sale it must be available for immediate sale in its present condition and its sale must be highly probable.

m. Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are initially recognised at cost.

Non-system assets purchased below \$500 are expensed as acquired. All costs of assets constructed by Ausgrid (system assets) are capitalised. Cost includes expenditure that is directly attributable to the acquisition and or construction of the asset including costs of materials, services, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an allocated proportion of supporting overhead costs. Capitalised costs also include borrowings costs in accordance with AASB 116 *Property Plant and Equipment* and AASB 123 *Borrowing Costs*.

Management judgement is required in the assessment of the types of costs that are directly attributable to the construction of our property, plant and equipment. Satisfying the directly attributable criteria requires an assessment of those unavoidable costs that, if not incurred, would result in the property, plant and equipment not being constructed. Directly attributable overheads are allocated to the cost of construction of an asset using direct labour hours.

Property, plant and equipment transferred from customers is initially measured at fair value at the date on which control is obtained in accordance with Interpretation 18, AASB13 *Fair value measurements* and AASB 116.

After initial recognition as an asset, items of property, plant and equipment are measured at fair value. Fair value is determined in accordance with NSW Treasury Accounting Policy TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value*, AASB13 and AASB 116, and reviewed annually for impairment in accordance with AASB 136 *Impairment of Assets*.

System assets

System assets are stated at fair value less accumulated depreciation and impairment losses. The fair value of system assets is determined using the income approach in accordance with AASB 13.

The valuation methodology reflects a discounted cash flow methodology to value Ausgrid, and a calculation to subtract the value of other business assets and liabilities to arrive at a value for Ausgrid's system assets.

The income approach is based on a discounted cash flow model using the following methods and assumptions:

- Use of an estimate of future cash flows to be derived based on financial forecasts;
- Expectations about possible variations in the amount/timing of future cash flows to reflect the most likely outcome;
- The time value of money, represented by the current market risk-free rate and the price for bearing the uncertainty inherent in the asset, as encapsulated in the discount rate;
- Other factors such as illiquidity that should be reflected in pricing future cash flows; and
- A multiple of the forecast regulated asset base (RAB) at the end of the forecast period used as a proxy for the terminal value. The terminal value RAB multiple is determined with reference to market observable multiples.

System assets are revalued at least every five years in accordance with TPP14-01 and AASB13. However, an assessment is made at each reporting date to ensure the net carrying value of system assets does not differ materially from its fair value, which is calculated on a 'cash generating unit' (CGU) basis using the discounted cash flows. As at 30 June 2015, the net carrying amount of system assets did not differ materially to the discounted cash flow methodology values.

The Corporation's view is that the distribution network as a whole should be considered to be a "single asset" for the purposes of revaluation. This is because all components within the network must work together in order to reliably supply electricity. Further, due to the specialised nature of the Corporation's network, system assets cannot be readily sold to third parties for different uses.

Non-system land and buildings

Non-system land and buildings are stated at fair value.

Non-system land and buildings were revalued during 2013/14 to reflect fair value in accordance with AASB 13, AASB 116 and the NSW Treasury Accounting Policy TPP14-01. Independent valuers, Preston Rowe Paterson NSW Pty Limited (PRP) were engaged to value these assets. The 2013/14 valuations were assessed at fair value based upon existing use which was provided by PRP. Sample testing of asset values is performed in intervening years to confirm that the current carrying amounts for these assets reflect fair value for adoption at 30 June.

Other property, plant and equipment

Other property, plant and equipment assets comprise non-specialised assets with short useful lives. These assets are stated at their depreciated historical costs which is considered an acceptable surrogate for fair value under TPP14-01 as any difference is unlikely to be material.

Ausgrid and Controlled Entity

Notes to financial statements

For the year ended 30 June 2015

(ii) Revaluations

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that asset previously recognised as an expense in net profit or loss, the increment is recognised immediately as revenue in net profit or loss. Revaluation decrements are recognised immediately as expenses in net profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same asset, they are debited directly to the asset revaluation reserve. The disclosure in Note 12 reflects the gross method of presentation as a revaluation adjustment has not been recognised since the introduction of TPP14-01. When an asset is revalued using the income approach, the Corporation will disclose any future revaluation adjustments on a net basis in accordance with TPP14-01. For non-system assets, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Gains and losses on disposal of revalued assets are included in profit and loss for the year. Any related revaluation increments in the asset revaluation reserve upon disposal are transferred to Retained Earnings.

(iii) Subsequent costs

Ausgrid recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to Ausgrid and the cost of the item can be measured reliably. All other costs are recognised in profit and loss as an expense as incurred.

(iv) Depreciation

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment.

Depreciation is charged to profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

– buildings	40 years
– system assets	1 – 70 years
– plant and equipment	3 – 25 years

System assets with 70-year useful lives relate to tunnel assets.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

n. Intangible assets

Intangible assets that are acquired externally or internally generated by Ausgrid are stated at cost less accumulated amortisation and impairment losses (see note 1(o)(ii)).

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Easements, which are an interest in land allowing access to network assets, are not amortised as they are granted for an unlimited time.

Intangible assets are amortised from the date they are available for use. Amortisation is charged to profit and loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are assessed for impairment at each reporting date. Other intangible assets are amortised from the date they are available for use.

The estimated useful life for computer software in the current and comparative periods is 1 – 4 years.

o. Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying amount reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Significant receivables are individually assessed for impairment. Non-significant receivables are collectively assessed by placing them in portfolios of similar risk profiles, based on objective evidence from historical experience and adjusted for any effects of economic and credit conditions existing at each reporting date.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories, derivatives and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually irrespective of any indication of impairment. The recoverable amount of an asset or cash generating unit (CGU) is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit and loss, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of the amount of previous revaluation, with any excess recognised through profit or loss.

Impairment losses recognised in respect of a CGU are allocated first to reduce the carrying amount of goodwill (if any) allocated to CGU and then, to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss has been recognised for the asset in prior years.

p. Other assets

Other assets relate to assets acquired from the purchase of renewable energy and costs for external, recoverable and contestable works carried out by Ausgrid which are still work in progress at reporting date. Costs for work in progress are deferred and recognised in profit and loss on completion of work and services. Other assets are measured at cost.

q. Trade and other payables

Trade and other payables represent liabilities for goods and services provided to Ausgrid and its controlled entity prior to the end of the financial year and there is an obligation to make future payment. The amounts are unsecured and are usually paid within 30 days of recognition.

Subsequent to initial recognition of these liabilities at fair value, they are measured at amortised cost using the effective interest rate method. This measurement is equivalent to the original invoice amount.

r. Loans and borrowings

Loans and borrowings are initially recognised at fair value, net of transaction costs incurred. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. This includes capital indexed bonds whose carrying amount is restated at each reporting date by way of an indexation adjustment based on the Consumer Price Index (CPI) in Australia.

Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. The difference between the face value and the capital value of these debt securities is amortised over the life of the specific instrument. Interest associated with these instruments is brought to account on an accrual basis. Indexation adjustments on CPI indexed bonds are also recognised as part of finance costs in profit and loss.

Gains and losses are recognised in profit and loss when the liabilities are derecognised as well as through the amortisation process.

Loan debt shown as a current liability is nominally due for repayment within twelve months. However due to the availability of roll-over facilities and the liquidity of the underlying debt instruments, Ausgrid may not necessarily need to repay these loans within twelve months.

s. Financial instruments

1) Derivative financial instruments and hedge accounting

(i) Initial recognition and subsequent measurement

The Corporation uses derivative financial instruments, such as forward currency contracts and forward interest rate contracts, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period.

Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which the Corporation wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Corporation will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Ausgrid and Controlled Entity

Notes to financial statements

For the year ended 30 June 2015

Hedges that meet the criteria for hedge accounting are accounted for as described below:

(ii) Fair value hedges

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the Corporation revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

(iii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading hedge revaluation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains or loss' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition on a non-financial asset or non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial assets or non-financial liability.

Hedge accounting is discontinued when the Corporation revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. At that time, any gain or loss recognised in other comprehensive income and accumulated in equity remains in equity and is transferred to profit and loss when the forecast transaction is ultimately recognised in profit and loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit and loss.

(iv) Non-novated energy derivatives

For any energy derivative contracts that were not novated to EnergyAustralia (formerly TRUenergy) in the Retail sale during 2010/11, a back to back arrangement was created for each contract that transferred the energy price risk back to EnergyAustralia. Derivative assets and liabilities for non-novated contracts were recognised in the Statement of Financial Position, with an offsetting asset and liability. A credit risk assessment on the respective asset and liability positions was calculated in accordance with accounting standard AASB13 with any gain or loss being recognised in profit or loss. As all energy derivative contracts were extinguished or novated to EnergyAustralia by 31 December 2014, there is no current asset or liability position for these items in the balance sheet as at 30 June 2015.

2) Derecognition of financial instruments

Ausgrid derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Ausgrid retains substantially all the risks and rewards of ownership of a transferred financial asset, Ausgrid continues to recognise the financial asset and the associated liability.

Ausgrid derecognises a financial liability when, and only when, Ausgrid's obligation specified in the contract is discharged, cancelled or expired.

t. Employee benefits

All liabilities for employee benefits that are expected to be paid for services provided by employees to reporting date represent present obligations are fully provided for in the financial statements.

Liabilities for employee benefits for wages, salaries, annual leave, pre 1993 sick leave and long service leave that are expected to be wholly settled within twelve months of the reporting date, represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that Ausgrid expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date based on an actuarial assessment undertaken by Cumpston Sarjeant Pty Limited as at 30 June 2015. The actuary has used a full actuarial projection method, with future cash flows discounted to the present day using market yields on national government bonds as a discount rate. The accrued portion of future benefits has been determined using the projected unit credit method. Consideration is given to expected future wage and salary levels, and a range of demographic assumptions including retirement, withdrawal, death and disability rates.

The amounts provided have been apportioned between current and non-current provisions. The current provisions being that portion which is expected to be paid within the ensuing 12 months or where there is no unconditional right to defer settlement of the obligation (refer Note 16). Non-current provisions are those amounts that are expected to be paid after 12 months and where there exists an unconditional right to defer settlement beyond 12 months.

u. Superannuation**(i) Defined contribution plan**

A defined contribution plan is a post-employment benefit under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit 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 the fair value of any plan assets is deducted.

The discount rate is the market yields on national government bonds as at 30 June 2015 that have maturity dates approximately to the terms of the Corporation's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All remeasurements arising from defined benefit plans are recognised in other comprehensive income in the year in which they occur.

Where the calculation results in a benefit to Ausgrid, 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.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced). Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Past service costs and net interest expense or income are recognised in profit and loss.

Ausgrid has one employee who is a member of the defined benefit schemes of State Authorities Superannuation Scheme (SASS), State Authorities Non-contributory Superannuation Scheme (SANCS) and State Superannuation Scheme (SSS). Ausgrid has determined that detailed disclosure will not materially influence the users of the financial statements and therefore has not been disclosed in detail.

Ausgrid has classified the defined benefits schemes wholly as a non-current liability to reflect the appropriate timing of the obligation.

v. Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognises termination benefits at the earlier of the following dates: (a) when the Corporation can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

w. Provisions

A provision is recognised in the Statement of Financial Position when Ausgrid has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

x. Other liabilities*Deferred revenue*

Deferred revenue is recognised for customer prepayments for external, recoverable and contestable works carried out by Ausgrid at reporting date. The revenue is deferred pending completion of the works and services.

Deposits

Deposits represent liabilities for contractors' deposits which can be refunded at any time after the end of the financial year and unclaimed monies which are held up to 6 years before being transferred to the Office of State Revenue. The amount which can be refunded in the succeeding financial year and at any time is shown as current and the remainder of the liability as non-current.

y. Share capital

Ausgrid is incorporated under the State Owned Corporations Act 1989 with issued capital of two fully paid \$1 ordinary shares.

Current shareholders are the Treasurer and the Minister for Finance, Services and Property on behalf of the NSW Government. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Corporation. The \$2 share capital is included in Contributed Equity in the Statement of Financial Position.

z. Special Dividends

A special dividend was made to shareholders of \$118.3m. The special dividend was in respect to the sales proceeds relating to the sale of the head office building at 570 George Street, Sydney which was sold on 12 June 2014. The sale proceeds were net of \$2.2m selling costs and \$24.8m relocation costs.

Ausgrid and Controlled Entity

Notes to financial statements

For the year ended 30 June 2015

aa. Reserves*Asset revaluation reserve*

The revaluation reserve relates to fair value movements in property, plant and equipment.

Hedging reserve

The hedging reserve is used to record unrealised gains or losses of effective cash flow hedges. The unrealised gains or losses of all other derivatives are recognised in profit and loss.

bb. Finance costs

Finance costs are recognised as expenses in profit and loss in the period in which they are incurred and include:

- interest expenses calculated using the effective interest method as described in AASB 139 *Financial Instruments: Recognition and Measurement*, e.g. interest on overdrafts and short-term and long-term borrowings, including amounts paid or received on interest rate swaps, amortisation of discounts or premiums relating to borrowings and indexation adjustments on CPI indexed bonds;
- discount expense applied to provisions and amortised assets;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- a government loan guarantee fee assessed by NSW Treasury.

The amount excludes finance costs relating to qualifying assets, in which case they are capitalised as part of the cost of those assets in accordance with AASB 123. Qualifying assets are assets that take a substantial period of time to get ready for their intended use. The Corporation considers this to be 12 months or more.

Capitalisation of borrowing costs is undertaken where a direct relationship can be established between the borrowings and the relevant projects giving rise to qualifying assets. Typically, these are projects whose expected total project expenditure is approximately \$10 million or greater.

The amount of borrowing costs capitalised during the year was \$32.5 million (2014: \$51.5 million), and the capitalisation rate used to determine this amount was at a weighted average interest rate of 7.0% (2014: 7.3%).

cc. Leases*As lessee*

Payments made under operating leases are recognised in profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit and loss as an integral part of the total lease expense and spread over the lease term.

Ausgrid and its controlled entity have not entered into any new finance leases as at reporting date. Leases in terms of which Ausgrid assumes substantially all the risks and rewards of ownership are classified as finance leases.

Ausgrid has recognised leases of land with a term exceeding 50 years as finance leases as at 30 June 2015. Recognition of the leased assets is measured at an amount equal to the lower of the fair value and the present value of the minimum lease payments.

As lessor

Ausgrid leases out its properties, including premises, land and communications towers, under operating lease agreements at market rentals, predominantly on a fixed term basis.

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms and included in revenue in the statement of profit and loss and the costs of repairs and maintenance incurred on these properties for the year are recognised as an expense in the profit and loss.

dd. Greenhouse legislation

Under various legislation described below, the Corporation surrendered certificates in 2014/15 to acquit obligations as at 31 December 2014 placed on it by the various Commonwealth and New South Wales government greenhouse schemes. The certificates are accounted for as other assets at cost and are reviewed for impairment at the close of the reporting period. The obligations related to Ausgrid owned generators and energy purchase contracts that were not transferred as part of the electricity sales transaction on 1 March 2011. For the period commencing 1 July 2014, the following schemes apply:

Commonwealth

The Renewable Energy Target (RET) scheme, from 1 January 2011, is split into Small-scale Renewable Energy Scheme (SRES) and Large-scale Renewable Energy Target (LRET) requiring the surrender respectively of Small-scale Technology Certificates (STCs) and Large-scale Generation Certificates (LGCs). The Act also imposes an annual liability statement to the Office of the Renewable Energy Regulator (ORER) in discharge of Ausgrid's renewable energy obligations under the RET Scheme.

New South Wales

The Electricity Supply Act 1995 No.94 imposed an obligation on electricity retailers in NSW to comply with the Energy Savings Scheme. These obligations require Ausgrid to acquire and surrender sufficient Energy Savings certificates (ESCs), and to lodge an annual statement with the Independent Pricing and Regulatory Tribunal (IPART) in discharge of Ausgrid's greenhouse gas emission reduction obligations.

In 2014/15, 100% of all greenhouse and energy efficiency certificates required to be surrendered by Ausgrid under the Renewable Energy (Electricity) Act and the NSW Energy Efficiency Scheme were provided under contract by EnergyAustralia, at no cost to Ausgrid and via a retail supply agreement with Ausgrid's one remaining retail customer.

The retail supply agreement with this retail customer was terminated as at 30 April 2014, along with the greenhouse obligations for that customer. In addition, two purchase power contracts relating to energy purchases for embedded generation were novated to EnergyAustralia on 19 December 2014. The 2014 calendar year is expected to be the final year that Ausgrid qualifies as a liable entity for the greenhouse compliance schemes.

ee. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

ff. Foreign currency

Foreign currency transactions are converted to Australian currency at the exchange rates at the date of the transaction, with resulting exchange differences recognised as income or expense in profit and loss.

gg. New and revised accounting standards and Australian Accounting Interpretations

Accounting standards and Interpretations issued but not yet effective

Various new and revised accounting standards and Australian Accounting Interpretations have been published that are not mandatory for the 30 June 2015 reporting period.

Ausgrid's assessment of the impact of the new standards and interpretations which may have an impact and have not been early adopted is set out below. The main impact of these standards and interpretations will be on presentation and disclosure except for the following:

- 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*, Interpretation 13 *Customer Loyalty Programmes* and Interpretation 18 *Transfers of Assets from Customers*. AASB 15 is effective for Ausgrid from periods beginning on or after 1 July 2017, with early adoption permitted. The initial application Ausgrid is assessing the impact on its consolidated financial statements resulting from the application of AASB 15.
- AASB 9 *Financial Instruments* published in December 2014, which replaces AASB 9 *Financial Instruments* (December 2009), AASB 9 *Financial Instruments* (December 2010), the existing guidance in AASB 139 *Financial Instruments: recognition and measurement* and Interpretation 9 *Reassessment of Embedded Derivatives*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected

credit loss model for calculating impairment on financial assets, and the new general hedging accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for Ausgrid from annual reporting periods beginning 1 July 2018, with early adoption permitted. The initial application of AASB 9 is not expected to materially affect the recognition of financial instruments in Ausgrid's financial statements. The application of the standard is expected to result in changes in the presentation and disclosure of information related to financial instruments.

- AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (as amended)*, Part E of AASB 2014-1 *Amendments to Australian Accounting Standards* and AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)* are applicable to annual reporting periods beginning on or after 1 July 2018.
- Ausgrid has not elected to adopt these standards early. Ausgrid will apply these standards in the period determined by the Australian Accounting Standards Board.

All other new standards and interpretations have no impact on Ausgrid and will not affect the entity's financial statements.

2. REVENUE

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Revenue		
Network use of system revenue	2 718.1	2 766.3
Transmission revenue	87.0	65.1
Public lighting system charge	40.7	46.1
Capital contributions	94.6	60.9
External / Recoverable / Contestable Works	95.7	143.1
Solar Bonus Rebate Scheme Recovery*	56.6	57.4
Other Income**	80.8	160.7
	3 173.5	3 299.6

*Solar bonus scheme provides a feed-in tariff payment to households for small-scale solar system generation for a period to 31 December 2016. Ausgrid is reimbursed the amount paid to households under the NSW Government's *Solar Bonus Scheme Reimbursement Program (SBSRP)* when conditions of the scheme are met. The \$56.6m reflects this recovery.

**Other income consists of fees and external charges, and other external revenue from the Transitional Services Agreement for services provided to EnergyAustralia. The Transitional Service Agreement ended in February 2015.

Ausgrid and Controlled Entity

Notes to financial statements

For the year ended 30 June 2015

3. EXPENSES

		Consolidated Entity & Ausgrid	
	Notes	2015 \$M	2014 \$M
(a) Expenses excluding finance costs			
Expenses relating to operating activities:-			
Distribution of energy and other services		846.9	841.9
Employee benefits expense		445.1	339.1
Bad debts and impairment of trade receivables		(0.3)	2.7
Operating leases rental		17.8	24.8
External consultants		6.4	1.1
Superannuation expense (defined benefit plan) recognised in profit for the year	27 (f)	18.3	31.8
Superannuation expense (defined contribution plan)		54.4	56.1
Total expenses relating to operating activities		1 388.6	1 297.5
Depreciation of Property, Plant & Equipment	12	521.0	548.6
Plant and equipment depreciation capitalised*		(9.5)	(12.0)
Depreciation expense		511.5	536.6
Amortisation of Intangible assets	13	60.0	128.9
Devaluation of Corporate land & buildings		—	4.0
Impairment loss (reversal) on non-financial assets		4.7	(3.8)
Total expenses excluding finance costs		1 964.8	1 963.2

*Plant and equipment depreciation charge

The depreciation of heavy vehicles and the related plant and equipment used in the construction and maintenance of electricity network is allocated to cost of projects. Costs allocated to capital projects are recognised in profit and loss as depreciation of the constructed network assets.

		Consolidated Entity & Ausgrid	
		2015 \$M	2014 \$M
(b) Finance costs			
Interest and finance charges paid/payable		600.6	595.3
Unwinding of discount loss on provisions		1.3	1.6
Finance costs recognised in the profit and loss		601.9	596.9
(c) Maintenance expenses			
Employee benefits expense		149.1	135.8
Contracted labour and other (non-employee related) expenses		127.3	109.6
		276.4	245.4

4. GAIN (LOSS) ON DISPOSAL

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Gain/(Loss) on disposal of property, plant and equipment and intangible assets		
Proceeds from disposal (net)	49.3	150.6
Less: Written down value of assets disposed	(59.3)	(115.5)
	(10.0)	35.1

5. INCOME TAX EXPENSE

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Recognised in profit and loss		
Current tax expense		
Current year	179.6	268.0
Adjustment for prior years	(1.7)	(3.5)
	177.9	264.5
Deferred tax expense		
Origination and reversal of temporary differences	1.6	(98.3)
Under / (over) provided in prior years	(2.8)	0.9
	(1.2)	(97.4)
Total income tax expense in profit and loss	176.7	167.1
Numerical reconciliation between tax expense and pre-tax net profit		
Profit before tax	596.8	774.6
Income tax using the domestic corporation tax rate of 30% (2014: 30%)	179.0	232.4
Increase (decrease) in income tax expense due to:		
Non-deductible expenses	2.2	1.4
Non Assessable Income on the Sale of Property	–	(3.7)
Change in tax treatment of accrued unread meters income (note 6)	–	(60.4)
Under / (over) provided in prior years	(4.5)	(2.6)
Income tax expense on pre-tax net profit	176.7	167.1
Income tax recognised in other comprehensive income		
Items not to be reclassified subsequently to profit or loss:		
Superannuation defined benefits remeasurements	32.9	9.2
Revaluation of property, plant and equipment	(4.7)	1.6
	28.2	10.8
Items to be reclassified subsequently to profit or loss:		
Revaluation of hedge derivatives	0.4	(2.7)
Income tax charged directly to Other Comprehensive Income	28.6	8.1

Ausgrid and Controlled Entity

Notes to financial statements

For the year ended 30 June 2015

6. DEFERRED TAX ASSETS / LIABILITIES

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Recognised deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Property, plant and equipment	1 338.9	1 379.7
Intangible assets	5.9	4.4
Employee benefits	(115.0)	(123.1)
Deferred government grants	(14.5)	(15.0)
Provisions	(35.6)	(57.9)
Defined superannuation benefit	(33.9)	(70.5)
Other items	(2.2)	(1.4)
Tax (assets) / liabilities	1 143.6	1 116.2

The deductible temporary differences and tax losses do not expire under current tax legislation.

	Balance 1 July 2014 \$M	Recognised in profit or loss \$M	Recognised in other comprehensive income \$M	Balance 30 June 2015 \$M
Movement in temporary differences during the year				
Property, plant and equipment	1 379.7	(36.1)	(4.7)	1 338.9
Intangible assets	4.4	1.5	—	5.9
Employee benefits	(123.1)	8.1	—	(115.0)
Deferred government grants	(15.0)	0.5	—	(14.5)
Provisions	(57.9)	21.9	0.4	(35.6)
Defined superannuation benefit	(70.5)	3.7	32.9	(33.9)
Other items	(1.4)	(0.8)	—	(2.2)
	1 116.2	(1.2)	28.6	1 143.6

	Balance 1 July 2013 \$M	Recognised in profit or loss \$M	Recognised in other comprehensive income \$M	Balance 30 June 2014 \$M
Movement in temporary differences during the year				
Unread meters income	49.2	(49.2)	—	—
Property, plant and equipment	1 436.9	(58.8)	1.6	1 379.7
Intangible assets	13.5	(9.1)	—	4.4
Employee benefits	(133.7)	10.6	—	(123.1)
Deferred government grants	(15.4)	0.4	—	(15.0)
Provisions	(63.8)	5.9	—	(57.9)
Defined superannuation benefit	(79.9)	2.9	6.5	(70.5)
Other items	(1.3)	(0.1)	—	(1.4)
	1 205.5	(97.4)	8.1	1 116.2

In 2013, Ausgrid treated certain income from network distribution services as being derived for income tax purposes in the years in which the meters are read and the related income is billed. This treatment reflected the consideration of expert advice and relevant taxation case law and resulted in the recognition of a deferred tax liability of \$49.2 million as at 30 June 2013.

Following a consultation process between the Australian Taxation Office (ATO) and the electricity industry, Ausgrid and the ATO agreed a revised approach effective from the 2014 year of income whereby Ausgrid's tax treatment transitioned to the accrual method used for accounting. The resultant changeover adjustment gave rise to a reduction in tax payable of \$11.1 million in 2014.

The change in tax treatment also resulted in an income tax benefit of \$60.4 million which reflected the tax effect on the closing unread meters balance in the 2009 year which was not subject to tax as it fell outside the statutory amendment period. This change in tax treatment resulted in a reduction in the effective tax rate for the year ended 30 June 2014 from 29.4% to 21.6%. The ATO has confirmed that in the circumstances penalties and interest were not applicable.

7. CASH AND CASH EQUIVALENTS

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Cash and cash equivalents	–	1.0

Bank overdraft is classified as a current liability in Borrowings within the Statement of Financial Position. Refer to Note 15.

8. TRADE AND OTHER RECEIVABLES

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Current		
Trade receivables	116.1	235.7
Less: impairment of trade receivables	(3.4)	(4.1)
Unread meters	353.3	331.3
	466.0	562.9
Prepayments	20.3	24.4
Trade & other receivables	486.3	587.3
The movement in the impairment of trade receivables is detailed below:		
Opening balance at 1 July	(4.1)	(1.9)
– additional provisions	(0.2)	(4.0)
– amounts used	–	–
– amounts reversed	0.9	1.8
Closing balance at 30 June	(3.4)	(4.1)

Ausgrid's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in Note 18(b).

Ausgrid and Controlled Entity

Notes to financial statements

For the year ended 30 June 2015

9. DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Derivative financial assets – current		
Energy derivatives non-novated	–	153.5
Derivative financial liabilities – current		
Energy derivatives non-novated	–	(154.6)
Forward interest rate contracts	–	(8.9)
	–	(163.5)

Ausgrid's exposure to credit, currency and interest rate risk related to derivatives is disclosed in Note 18.

10. OTHER CURRENT ASSETS

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Current		
Deferred costs – WIP on recoverable works	6.2	22.1
Greenhouse certificates – at cost	–	0.3
	6.2	22.4

11. ASSETS CLASSIFIED AS HELD FOR SALE

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Assets held for sale		
Buildings	1.0	0.1
System assets	57.2	52.9
	58.2	53.0

Throughout the year, Ausgrid's management decided to sell excess land and buildings. There are a number of interested parties and the sales are expected to be completed within the next financial year. An impairment loss of \$22.9m on the remeasurement of assets being disposed to the lower of its carrying amount and its fair value less costs to sell has been recognised in the asset revaluation reserves. Assets of \$31.4m which were held for sale as at 30 June 2014, have been reclassified as Property Plant & Equipment as at 30 June 2015 given the sale terms changed from a freehold sale to prepaid long term leases and are expected to settle during the financial year ended 30 June 2016.

12. PROPERTY, PLANT AND EQUIPMENT

		Consolidated Entity & Ausgrid			
	Notes	Land and Buildings \$M	System Assets \$M	Plant & Equipment \$M	Total \$M
At 1 July 2014 – fair value					
Gross carrying amount		544.7	18 735.5	571.9	19 852.1
Accumulated depreciation and impairment		(32.5)	(4 305.9)	(342.7)	(4 681.1)
Net carrying amount		512.2	14 429.6	229.2	15 171.0
At 30 June 2015 – fair value					
Gross carrying amount		572.7	19 330.3	560.1	20 463.1
Accumulated depreciation and impairment		(44.0)	(4 741.1)	(368.1)	(5 153.2)
Net carrying amount		528.7	14 589.2	192.0	15 309.9
Year ended 30 June 2015					
Net carrying amount at start of year		512.2	14 429.6	229.2	15 171.0
Additions		34.5	698.8	19.0	752.3
Disposals		–	(28.0)	(4.1)	(32.1)
Revaluation adjustment		0.3	(0.7)	–	(0.4)
Depreciation expense	3(a)	(17.4)	(451.5)	(52.1)	(521.0)
Impair to market value (Held for sale)		–	(22.9)	–	(22.9)
Impairment		–	(4.7)	–	(4.7)
Transfer from Held for Sale		–	31.4	–	31.4
Transfer to Held for Sale		(0.9)	(62.8)	–	(63.7)
Net carrying amount at end of year		528.7	14 589.2	192.0	15 309.9
At 1 July 2013 – fair value					
Gross carrying amount		653.3	17 298.4	574.2	18 525.9
Accumulated depreciation and impairment		(51.9)	(3 150.5)	(317.4)	(3 519.8)
Net carrying amount		601.4	14 147.9	256.8	15 006.1
At 30 June 2014 – fair value					
Gross carrying amount		544.7	18 735.5	571.9	19 852.1
Accumulated depreciation and impairment		(32.5)	(4 305.9)	(342.7)	(4 681.1)
Net carrying amount		512.2	14 429.6	229.2	15 171.0
Year ended 30 June 2014					
Net carrying amount at start of year		601.4	14 147.9	256.8	15 006.1
Additions		31.0	804.7	37.2	872.9
Disposals		(100.7)	(11.5)	(1.7)	(113.9)
Revaluation		3.5	(2.4)	–	1.1
Depreciation expense	3(a)	(22.0)	(463.8)	(62.8)	(548.6)
Impairment loss		(0.9)	(2.1)	(0.3)	(3.3)
Transfer of impairment provision	13	–	11.8	–	11.8
Transfer to intangible assets		–	(2.1)	–	(2.1)
Transfer to Held for Sale		(0.1)	(52.9)	–	(53.0)
Net carrying amount at end of year		512.2	14 429.6	229.2	15 171.0

Ausgrid and Controlled Entity

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For the year ended 30 June 2015

Assets under construction

During the year ended 30 June 2015, Ausgrid continued with its Network Capital Program. At the statement of financial position date, the construction in progress totalled:

Land and buildings	\$10.7 million (2014: \$26.9 million)
System assets	\$879.1 million (2014: \$1,317.3 million)
Plant and equipment	\$14.3 million (2014: \$23.6 million)

Historic cost of revalued assets

The carrying amount of assets had they been carried under the historic cost model is:

Land and buildings	\$482.5 million (2014: \$458.3 million)
System assets	\$11,408.6 million (2014: \$11,149.8 million)

The corporation has long term lease arrangements for land which expires in 2065 and 2108. At 30 June 2015, the net carrying amount of leased land was \$22.9 million and is reflected under Land and Buildings.

13. INTANGIBLE ASSETS

Consolidated Entity & Ausgrid				
Notes	Easements \$M	Computer Software \$M	Other \$M	Total \$M
At 1 July 2014				
At cost	108.3	565.4	11.9	685.6
Accumulated amortisation and impairment	–	(451.8)	(10.7)	(462.5)
Net carrying amount	108.3	113.6	1.2	223.1
At 30 June 2015				
At cost	110.4	542.2	12.4	665.0
Accumulated amortisation and impairment	–	(468.5)	(11.2)	(479.7)
Net carrying amount	110.4	73.7	1.2	185.3
Year ended 30 June 2015				
Net carrying amount at start of year	108.3	113.6	1.2	223.1
Acquisitions	2.1	19.6	0.5	22.2
Amortisation 3(a)	–	(59.5)	(0.5)	(60.0)
Net carrying amount at end of year	110.4	73.7	1.2	185.3
At 1 July 2013				
At cost	103.9	556.2	11.9	672.0
Accumulated amortisation and impairment	–	(367.9)	(7.7)	(375.6)
Net carrying amount	103.9	188.3	4.2	296.4
At 30 June 2014				
At cost	108.3	565.4	11.9	685.6
Accumulated amortisation and impairment	–	(451.8)	(10.7)	(462.5)
Net carrying amount	108.3	113.6	1.2	223.1
Year ended 30 June 2014				
Net carrying amount at start of year	103.9	188.3	4.2	296.4
Acquisitions	4.4	54.3	–	58.7
Disposals	–	(0.5)	–	(0.5)
Amortisation 3(a)	–	(125.9)	(3.0)	(128.9)
Transfer of impairment provision 12	–	(11.8)	–	(11.8)
Reversal of impairment	–	7.1	–	7.1
Transfer from Property Plant & Equipment	–	2.1	–	2.1
Net carrying amount at end of year	108.3	113.6	1.2	223.1

Intangible assets under construction

During the year ended 30 June 2015, Ausgrid continued with its Capital Program. At the statement of financial position date, the construction in progress totalled:

Computer software \$12.8 million (2014: \$13.1 million)

Easements \$0.0 million (2014: \$0.1 million)

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For the year ended 30 June 2015

14. TRADE AND OTHER PAYABLES

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Trade payables	89.4	119.0
Interest payable	273.0	277.8
Accruals	29.5	24.9
Other payables	58.7	53.8
	450.6	475.5

Details regarding credit risk, liquidity risk and market risk including a maturity analysis of the above payables are disclosed in Note 18.

15. BORROWINGS

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Current liabilities		
Bank Overdraft	1.2	–
Current portion of loans	409.3	527.7
	410.5	527.7
Non-current liabilities		
Finance lease liabilities	17.2	–
Non-current portion of loans	8 564.4	8 168.6
	8 581.6	8 168.6

Loans are unsecured and repayable in full on various maturity dates. For more information about Ausgrid's exposure to interest rate and foreign currency risks, see Note 18. For more information about finance leases, see Note 25.

16. PROVISIONS

	Consolidated Entity & Ausgrid					
	Insurance \$M	Dividends \$M	Employee Benefits \$M	Restructuring \$M	Other \$M	Total \$M
Opening Balance at 1 July 2014	18.8	381.7	687.5	36.9	90.0	1 214.9
– additional provisions	5.7	294.8	268.5	57.9	6.3	633.2
– amounts used	(4.9)	(381.7)	(304.6)	(29.3)	(11.7)	(732.2)
– amounts reversed	(0.7)	–	(172.7)	(18.1)	(8.4)	(199.9)
Closing Balance at 30 June 2015	18.9	294.8	478.7	47.4	76.2	916.0
Current	2.8	294.8	309.3	47.4	24.2	678.5
Non-current	16.1	–	169.4	–	52.0	237.5
Balance at 30 June 2015	18.9	294.8	478.7	47.4	76.2	916.0
Current	4.0	381.7	367.1	36.9	37.1	826.8
Non-current	14.8	–	320.4	–	52.9	388.1
Balance at 30 June 2014	18.8	381.7	687.5	36.9	90.0	1 214.9

(i) Insurance

This insurance provision relates to workers compensation and general insurance. Ausgrid is a self-insurer through its insurance provision for workers' compensation and meets all liabilities under the Workers' Compensation legislation in NSW and other States. The liabilities cover claims incurred but not yet reported and the anticipated fund management fees in respect of the management of those claims.

During the year, a consulting actuary undertook the annual investigation of Ausgrid's estimated liability for workers' compensation as at 30 June 2015. The liability is measured as the present value of future payments at 30 June 2015 and was estimated to be \$16.9 million (2014: \$16.5 million). This includes the liability for dust related diseases which is estimated at \$6.1 million (2014: \$7.5 million).

(ii) Dividends

Provision is made for the amount of any dividend and other payments determined by the Directors and approved by the shareholding Ministers prior to 30 June 2015 but not distributed at reporting date. The dividend has regard to the annual performance agreement (Statement of Corporate Intent) with NSW Treasury.

The dividend is calculated in accordance with TPP14-04 *Financial Distribution Policy for Government Businesses*. The dividend payable of \$294.8 million (2014: \$381.7 million) was approved by the shareholding Ministers before 30 June 2015 and was calculated based on forecast profit adjusted for certain non-cash items.

(iii) Employee benefits

The provision for employee benefits relates to amounts accruing to employees up to reporting date in respect of employee benefits including defined benefits superannuation obligations, annual leave, pre 1993 sick leave and long service leave. Amounts provided for in relation to defined benefits superannuation obligations, long service leave and preserved sick leave are based on an actuarial assessment and associated formulae provided for intervening periods between assessments as outlined in Note 1(t) and 1(u).

All other employee benefit amounts expected to be settled in 12 months have been measured at the amounts expected to be paid when the liabilities are settled. The non-current provision for employee benefits also include \$113.1 million (2014: \$235.1 million) relating to the Defined Benefits Superannuation liability.

(iv) Restructuring provision

Ausgrid are undertaking a detailed review of its organisational structure which commenced on 1 July 2012 as part of the NSW electricity industry reform program. The impact of this review will result in a significant reorganisation and centralisation of functions, including the consolidation of some roles and the reconsideration of future workforce plans. A provision for restructure has been raised relating to individual employee redundancies at 30 June 2015 covering redundant Network business roles and redundant roles post the end of the Transition Services Agreement (TSA).

The provision also includes restructuring costs relating to an Early Retirement Scheme approved by the Australian Taxation Office. The Early Retirement Scheme is part of a "Mix & Match" program. The program allows eligible network employees to leave through an Early Retirement Scheme and create vacancies for TSA staff, whose roles were redundant at the end of the TSA. The Australian Taxation Office approved the Program on 3 July 2013.

(v) Other

Provision for site remediation

A provision for site remediation was created to cover all asbestos and contaminated land remediation costs to be incurred during subsequent years.

The provision as at 30 June 2015 was estimated to be \$13.2 million (2014: \$13.9 million). The provision is the best estimate of the present value of the expenditure required to settle the obligation at the reporting date, based on current legal requirements and technology. Future costs are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period.

Provision for removal and disposal of equipment (restoration provision)

A provision for removal and disposal of system equipment was created in 2004/05 to cover future end of life removal costs where there is a legislative obligation to perform this.

The provision as at 30 June 2015 was estimated to be \$42.7 million (2014: \$44.0 million). The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology.

Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

The amount of the provision for future restoration costs is capitalised and is depreciated in accordance with the policy set out in Note 1(w). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

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Provision for costs relating to the Retail Sale

A provision for costs relating to the Retail Sale was created to cover expected future costs incurred during subsequent years relating to the cost of transitioning our retail operations to EnergyAustralia. The provision as at 30 June 2015 was estimated to be \$6.4 million (2014: \$12.1 million).

Provision for costs relating to decommissioning assets

The provision to cover the expected future costs associated with decommissioning Ausgrid's system assets as at 30 June 2015 was estimated to be \$7.4 million (2014: \$16.2 million).

Provision for Other Costs

A provision was created to represent estimated expenditure required to settle obligations at the reporting date. The provision as at 30 June 2015 was estimated to be \$2.3 million (2014: \$1.8 million).

Provision for Make Good

Ausgrid is required to restore the leased premises to the lessor clean, tidy, and free from loose items and in good condition. A provision has been recognised for the amount payable in terms with the lease agreement. The provision as at 30 June 2015 was \$4.2 million (2014: \$1.9 million).

(vi) Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave, vesting sick leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision for accrued annual leave, vesting sick leave and unconditional entitlements to long service leave of \$309.3 million (2014 – \$367.1 million) is presented as current, since Ausgrid does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, Ausgrid does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Current leave obligations expected to be settled after 12 months	212.0	248.2

17. OTHER LIABILITIES

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Current		
Deposits	3.3	2.9
Deferred revenue	11.8	24.2
	15.1	27.1
Non-Current		
Deposits	3.4	5.4

18. FINANCIAL INSTRUMENTS DISCLOSURE

a. Financial risk management objectives and policies

Financial instruments comprise cash, trade debtors, trade creditors, short term deposits, loans and derivatives. The main purpose of these financial instruments is to raise finance or invest surplus cash for the entity's operations, and to manage exposure to price movements.

The Ausgrid's leadership team and Board manage the Corporation's exposure to key financial risks including credit risk, currency risk, interest rate risk, liquidity risk and commodity price risk, in accordance with the Board's financial risk management policies. The Board reviews and agrees policies for managing each of the key financial risks.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Derivative financial instruments can be used to hedge exposure to fluctuations in foreign exchange rates, commodity prices, interest rates and energy prices.

b. Credit risk

Credit risk is the risk of financial loss arising if counterparties failed to meet their financial obligations.

The credit risk on trade and other receivables, and accrued income from unread meters of Ausgrid that have been recognised in the Statement of Financial Position, is generally the carrying amount net of any impairment provision.

Ausgrid's credit risk management policy requires customers to pay in accordance with agreed payment terms. The payment terms are generally 15-30 days. All credit and recovery risks associated with trade receivables have been provided for in the Statement of Financial Position.

The ageing of trade receivables past due but not impaired at 30 June 2015 is detailed below:

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Less than 3 months overdue	3.7	68.5
3 months to 6 months overdue	0.6	3.1
Later than 6 months overdue	4.3	6.5
	8.6	78.1

Ausgrid's credit exposure is predominantly with investment grade rated corporations or government owned entities in the energy industry. Where the counter-party is a non-government owned corporation, its credit worthiness is established and monitored in accordance with the credit risk management policy as approved by the Board.

The maximum credit exposure resulting from energy derivatives, excluding realised gains and losses not yet settled to EnergyAustralia is nil (2014: \$153.5 million). As all energy derivative contracts were extinguished or novated to EnergyAustralia by 31 December 2014, there is no credit risk related to these contracts.

c. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Ausgrid is exposed to foreign currency risk in respect of purchases of capital equipment that are denominated in a currency other than the AUD.

Ausgrid uses forward exchange contracts to hedge its foreign currency risk for all foreign exchange exposures that exceed \$AUD 500,000 in value.

There are no other significant assets or liabilities denominated in currencies other than AUD.

At reporting date, for both current and prior year, there is no material exposure to any foreign currency net of estimated purchases and forward exchange contracts.

It is estimated that a change at reporting date by ten percentage points in the value of the AUD against other foreign currencies would have no impact on Ausgrid's profit or loss or value of comprehensive income for the year.

Ausgrid and Controlled Entity

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d. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Ausgrid adopts a policy of ensuring that its debt portfolio is managed within a risk framework including board approved weighted average life ranges and debt maturity profiles. Interest rate risk is managed through a combination of fixed rate long term duration debts, inflation linked securities, floating rate debts and interest rate derivative instruments.

The interest rate profile for Ausgrid's interest bearing financial instruments at the reporting date was:

Carrying amount	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Fixed rate		
Financial liabilities	(7 273.2)	(6 995.3)
Floating rate		
Financial assets	—	1.0
Financial liabilities	(1.2)	(18.0)
	(1.2)	(17.0)
Inflation Indexed		
Financial liabilities	(1 700.5)	(1 683.0)
	(1700.5)	(1 683.0)

Ausgrid does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Ausgrid has variable rate financial liabilities at year end and it is estimated that a change in interest rates by one percentage point at reporting date would have \$1.1m impact on Ausgrid's profit before tax (2014: nil). There would be no effect on equity.

e. Capital risk management

Consistent with NSW Treasury Policy Capital Structure Policy for Government Businesses [TPP02-7] which is a component of the NSW Government's Commercial Policy Framework, Ausgrid's objectives are to determine an appropriate capital structure to enable an appropriate return on equity and efficient investment decisions to be made on a commercial basis.

Under the policy, both an appropriate capital structure and a minimum-to-maximum capital structure range are determined whilst considering the following criteria:

- provision of an acceptable stream of dividends;
- maintenance of an appropriate investment grade rating, taking into account industry and entity specific factors;
- ability to meet key debt service criteria, based on industry benchmarks;
- capacity to finance the approved capital expenditure program through internally generated cash flows and debt, with consideration of the current phase of the investment cycle; and
- provision of sufficient flexibility for relevant contingencies.

The minimum-to maximum capital structure 'range' includes an acceptable range of gearing levels within Ausgrid's capital structure. Ausgrid monitors gearing levels and ratios. The key ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans, TCorp short term accommodation, and obligations under finance leases less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Statement of Financial Position plus net debt.

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Total borrowings	8 992.1	8 696.3
Less: cash and cash equivalents	–	(1.0)
Net debt	8 992.1	8 695.3
Total equity	4 509.1	4 435.3
Total capital	13 501.2	13 130.6
Gearing ratio	66.6%	66.2%

Ausgrid's agreed capital structure and range is reviewed every year as part of the SCI "Statement of Corporate Intent" process. The purpose of such a review is to confirm whether or not the current capital structure and range continue to be appropriate and, if not, to negotiate revised arrangements between the Board and Shareholders.

f. Energy price risk

Energy price risk is the risk that Ausgrid's cash flow will be adversely affected by movements in wholesale market electricity price. As part of the retail sale transaction on 1 March 2011, Ausgrid transferred its open energy trading contracts to the purchaser, EnergyAustralia (formerly TRUenergy). A number of energy trading contracts were unable to be novated to EnergyAustralia and are recorded in the Statement of Financial Position as at 30 June 2014. Non-novated contracts held in Ausgrid's name were matched to an equal and opposite position with EnergyAustralia. Ausgrid did not derive any benefit associated with cash flow but still bore residual legal and credit risks until the contract was novated or expired. As all energy derivative contracts were extinguished or novated to EnergyAustralia by 31 December 2014, there is no energy price risk related to these contracts.

From 1 March 2011, there is no longer any energy price risk except for the sole retained customer for which Ausgrid enters into a hedging arrangement as required. The 10% sensitivity test will yield a nil value as there is no open position in the derivatives book.

g. Liquidity risk

Liquidity risk is the risk of difficulty in ensuring the availability of sufficient funds to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Ausgrid's liquidity risks are managed with the availability of readily accessible standby facilities and other funding arrangements and by investing surplus funds in marketable securities and deposits (see Notes 1(r), 1(s), 7 and 15).

Ausgrid has an approved core debt borrowing limit of \$9,641 million (2014 \$9,250 million) of which \$674.8 million was unused as at 30 June 2015 (2014 \$571.7 million). Ausgrid also has an approved TCorp Come and Go Facility limit of \$450.0 million (2014 \$450.0 million) and a commercial bank overdraft facility limit of \$2.0 million (2014 \$2.0 million) to fund working capital. Planned future capital expenditure will be funded through TCorp borrowings. Future committed expenditure is disclosed in Note 24 and 25.

While current liabilities are greater than current assets as at 30 June 2015, the Corporation continues to trade as a going concern. It is noted that the Corporation derives revenue from non-current assets. The TCorp Come and Go Facility had \$450.0 million (2014 \$432.0 million) unused and the commercial bank overdraft facility limit had \$0.8 million (2014 \$2.0 million) unused as at 30 June 2015.

Ausgrid's policy established prudential limits on the amount of debt that can mature within set periods. The policy sets out that no more than 20% of the Corporation's short term borrowings can mature less than one year, and no more than 20% of the Corporation's long term borrowings can mature in any 12 month period beyond one year. Furthermore, the combined maximum portion of total debt that has a maturity of less than one year cannot exceed 20%. At 30 June 2015, 4.6% of the Corporation's debt will mature in less than one year (6.1% in 2014). During the current and prior years, there were no defaults or breaches on any loans payable and no assets have been pledged as collateral. Ausgrid maintains a balance between continuity of funding and flexibility through the use of bank overdrafts and debt. The Corporation's funding requirement and strategy is reviewed annually and monitored on an ongoing basis. The Corporation manages debt via a portfolio approach. At 30 June 2015 weighted average life of the Corporation's debt portfolio was within the policy limit approved by the Board.

The contractual maturity of Ausgrid's fixed and floating rate financial liabilities and derivatives are shown in the following table.

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	Consolidated Entity & Ausgrid				
	Carrying amount \$M	Contractual cash flows Total \$M	1 year or less \$M	1 - 5 years \$M	More than 5 years \$M
30 June 2015					
Non derivative financial liabilities					
Fixed rate loans	7 273.2	9 381.5	810.8	4 816.3	3 754.4
Floating rate loans	1.2	1.2	1.2	—	—
Inflation indexed loans	1 700.5	2 334.1	46.7	127.6	2 159.8
Finance lease liability	17.2	73.6	1.5	5.9	66.2
Trade and other payables 19(c)	393.2	393.2	393.2	—	—
	9 385.3	12 183.6	1 253.4	4 949.8	5 980.4
30 June 2014					
Derivative financial liabilities					
Energy derivatives	154.6	208.7	46.1	143.3	19.3
Forward interest rate contracts	8.9	8.9	0.4	1.7	6.8
	163.5	217.6	46.5	145.0	26.1
Non derivative financial liabilities					
Fixed rate loans	6 995.3	9 376.2	494.9	4 319.0	4 562.3
Floating rate loans	18.0	18.0	18.0	—	—
Inflation indexed loans	1 683.0	2 398.8	46.4	126.1	2 226.3
Trade and other payables 19(c)	424.7	424.7	424.7	—	—
	9 121.0	12 217.7	984.0	4 445.1	6 788.6

Note: The amounts disclosed above for loans are the contractual undiscounted cash flows. These disclosed contractually committed cash flows will not differ from the timing and the amounts expected to be incurred for these liabilities, however liabilities will change for floating loans and inflation indexed loans due to changes in market rates and CPI inflation rates.

The following table separately discloses the undiscounted contractual net cash inflows and outflows on derivative liabilities that settle on a net basis and that require gross disclosure. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected prices as illustrated by the forward curves at the end of each reporting period. Energy derivatives are subject to pass through provisions in the Purchase and Sale Agreement with EnergyAustralia, and consequently all cash flows are offset either against contra cash flows with either the original counterparty or EnergyAustralia. There were no energy derivatives as at 30 June 2015.

	Consolidated Entity & Ausgrid				
	Carrying amount \$M	Contractual cashflows total \$M	1 year or less \$M	1-5 years \$M	More than 5 years \$M
30 June 2014					
Derivative Financial Liabilities					
Net settled:					
– energy derivatives	(142.4)	(196.3)	(33.7)	(143.3)	(19.3)
– cash flows offset^	142.4	196.3	33.7	143.3	19.3
	—	—	—	—	—
Gross settled:					
– energy derivatives	(12.2)	(16.5)	(16.5)	—	—
– cash flows offset^	12.2	16.5	16.5	—	—
	—	—	—	—	—

^ cash flows available under offset arrangements with EnergyAustralia

19. FAIR VALUE MEASUREMENTS

This note provides information about how Ausgrid determines fair value of all assets and liabilities for which fair value is measured or disclosed in the financial statements.

a. Fair value hierarchy

(i) Recognised fair value measurements

The following table presents the Corporation's assets and liabilities measured and recognised at fair value at 30 June 2015.

Consolidated Entity & Ausgrid				
Notes	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
At 30 June 2015				
Non-financial assets				
System assets 12	–	–	14 589.2	14 589.2
Land and buildings 12	–	528.7	–	528.7
Total non-financial assets	–	528.7	14 589.2	15 117.9
Non-recurring fair value measurements				
Assets held for sale 11	–	58.2	–	58.2
At 30 June 2014				
Financial assets				
Non-novated energy derivatives financial instruments 9	–	–	153.5	153.5
Total financial assets	–	–	153.5	153.5
Non-financial assets				
Systems assets 12	–	–	14 429.6	14 429.6
Land and buildings 12	–	512.2	–	512.2
Total non-financial assets	–	512.2	14 429.6	14 941.8
Financial liabilities				
Non-novated energy derivatives financial instruments 9	–	–	154.6	154.6
Forward interest rate contracts 9	–	8.9	–	8.9
Total Financial liabilities	–	8.9	154.6	163.5
Non-recurring fair value measurements				
Assets held for sale 11	–	0.1	52.9	53.0

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. For transfers in and out of level 3 measurements refer (b) below.

Ausgrid's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

(ii) Disclosed fair values

Ausgrid also has a number of assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the notes.

Receivables and payables

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows at the current market interest rates that are available to the Corporation for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant (level 2).

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Interest rates used for determining fair value

The entity uses the government yield curve as at 30 June 2015 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	Consolidated Entity & Ausgrid	
	2015	2014
Loans and borrowings	2.0% – 4.0%	2.5% – 4.5%

Deposits

Deposits represent liabilities for contractors' deposits which can be refunded at any time after the end of the financial year. The net fair value is the carrying value.

(iii) Valuation techniques used to derive level 2 and level 3 fair values

Ausgrid measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Non novated energy derivative financial instruments
- Forward interest rate contracts
- System assets
- Land and buildings

Ausgrid has also measured assets and liabilities at fair value on a non-recurring basis as a result of the reclassification of assets as held for sale.

(iv) Recurring fair value measurements

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair values of financial assets and financial liabilities are determined as follows:-

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. In the absence of current quoted market prices, the price of the most recent transaction will provide evidence of the current fair value.

The fair values of other financial assets and financial liabilities (excluding energy derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using maximum observable market input data which include prices from observable current market transactions and dealer quotes for similar instruments.

Non-novated energy derivatives financial instruments

The fair value of electricity derivatives was calculated either using readily observed market sources or internally adjusted market prices.

The forward curve against which electricity derivatives are revalued is constructed from readily observed market sources. The inputs for this curve are sourced from a combination of available independent broker quotes as well as closing Sydney Futures Exchange prices.

For those electricity derivatives, where directly appropriate market price valuations were not available, the net fair value for such contracts had been calculated based on internally adjusted market price estimates for similar products or reasonable extrapolation of the last observed relative reference prices. Certain other more complex contracts involving term structures, conditions and strike prices for which there were no observable market prices had been valued based on entity specific inputs using models that were also used in risk management. In all of these cases, estimated future cash flows resulting from the valuation exercise were discounted to derive the relative net fair values as at reporting date. The discount rates used were sourced from a zero coupon yield curve constructed by an independent content provider.

The discount factors also incorporate the impact of Ausgrid and counterparty credit in accordance with AASB 13.

System assets

System assets are valued using techniques described in Note 1(m). All resulting fair value estimates for system assets are included in level 3.

Land and buildings

Land and buildings are valued using techniques described in Note 1(m). All resulting fair value estimates for land and buildings are included in level 2.

(v) Non-recurring fair value measurements

Non current assets classified as held for sale during the reporting period is measured at the lower of its carrying amount and fair value less cost to sell and are included in level 2 this year (level 3: 2014).

b. Fair value hierarchy measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the periods ended 30 June 2015 and 30 June 2014 for recurring fair value measurements:

Consolidated Entity & Ausgrid						
	Liabilities		Assets			
	Energy derivatives \$M	Total \$M	Energy derivatives \$M	System assets \$M	Asset held for sale \$M	Total \$M
Opening balance 1 July 2013	(81.8)	(81.8)	81.8	14 147.9	0.1	14 229.8
Transfer from level 2	–	–	–	9.7	–	9.7
Acquisitions	–	–	–	804.7	–	804.7
Disposals	7.3	7.3	(7.3)	(11.5)	(0.1)	(18.9)
Depreciation and impairment	–	–	–	(465.9)	–	(465.9)
Gains (losses) recognised in profit and loss	(80.1)	(80.1)	79.0	–	–	79.0
Gains (losses) recognised in other comprehensive income	–	–	–	(2.4)	–	(2.4)
Transfer to asset held for sale	–	–	–	(52.9)	52.9	–
Closing balance 30 June 2014	(154.6)	(154.6)	153.5	14 429.6	52.9	14 636.0
Acquisitions	–	–	–	698.8	–	698.8
Disposals	154.6	154.6	(153.5)	(28.0)	(27.1)	(208.6)
Depreciation and impairment	–	–	–	(479.8)	–	(479.8)
Net transfer to (from) asset held for sale	–	–	–	(31.4)	31.4	–
Transfer to level 2	–	–	–	–	(57.2)	(57.2)
Closing balance 30 June 2015	–	–	–	14 589.2	–	14 589.2

(i) Transfers between levels 2 and 3 and changes in valuation techniques

Transfers between levels 2 and 3 were reclassification of asset categories between system assets and intangibles as well as assets held for sale recognised at market value. There were no changes in valuation techniques during the year.

(ii) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

Description	Fair value at 30 June 2015 \$M	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
System assets	14 589.2	Discount rate	+/- 50 basis points	The higher the discount rate and terminal yield, the lower the fair value. A 50 basis points increase/decrease in discount rate results in a \$365.9 million decrease/increase change in the fair value.
		5 year forecast capital expenditure	+/-10%	The higher the capital expenditure the lower the fair value. A 10% movement in the capital expenditure results in a \$10.2 million change in the fair value.
		5 year forecast operating expenditure	+/-10%	The higher the operating expenditure the lower the fair value. A 10% movement in the operating expenditure results in a \$169.3 million change in the fair value.
		Forecast terminal RAB multiple	+/- 5%	The higher the terminal RAB multiple, the higher the fair value. A 5% movement in the terminal RAB multiple results in a \$654 million change in the fair value.

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For the year ended 30 June 2015

(iii) Valuation processes

Ausgrid engages external, independent and qualified valuers to determine the fair value of the Corporation's derivatives on a six-monthly basis.

The main level 3 inputs used by the group are derived and evaluated as follows:

- System assets: a discounted cash flow model is used to perform a fair value calculation using inputs such as future cash flows and discount rates (refer to Note 1(m)(i)). The cash flow model is used to formulate a discount rate used to discount cash flows which is based upon several inputs, primarily the risk free rate and debt risk premium and adjustments which are made within the model. The risk free rate is observable data based on government bond rates, and the debt risk premium data is obtained from observable data of corporate bond yields and spreads and is adjusted as required for use in the model.
- The forecast capital expenditure represent capital expenditure expected to be spent between 1 July 2015 and 30 June 2020 based on latest management estimates.

c. Fair value versus carrying amount

The carrying amounts and fair values of financial assets and liabilities at reporting date are:

		Consolidated Entity & Ausgrid			
		2015		2014	
	Notes	Carrying Amount \$M	Fair Value \$M	Carrying Amount \$M	Fair Value \$M
Financial instruments					
Financial assets carried at amortised cost					
Cash and cash equivalents	7	–	–	1.0	1.0
Trade and other receivables (excluding prepayments)	8	466.0	466.0	562.9	562.9
		466.0	466.0	563.9	563.9
Financial assets carried at fair value					
Energy derivatives	9	–	–	153.5	153.5
		–	–	153.5	153.5
Financial liabilities carried at amortised cost					
Borrowings	15	8 992.1	10 162.7	8 696.3	9 695.2
Trade and other payables (excluding statutory payables)	18(g)	393.2	393.2	424.7	424.7
Deposits	17	6.7	6.7	8.3	8.3
		9 392.0	10 562.6	9 129.3	10 128.2
Financial liabilities carried at fair value					
Energy derivatives	9	–	–	154.6	154.6
Forward interest rate contracts	9	–	–	8.9	8.9
		–	–	163.5	163.5

20. KEY MANAGEMENT PERSONNEL DISCLOSURE

Key management personnel comprise members of the Board of Directors, Networks New South Wales (NNSW) executive management team and the Corporation's leadership management team.

The following were key management personnel of Ausgrid at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

Directors

Mr Roger Massy-Greene (Chairman)

Dr Peter Dodd

Ms Laura Reed

Mr Phil Garling

Dr Patrick Strange

Ms Diana Eilert

Mr Vince Graham (Chief Executive Officer)

Key management personnel remuneration

In addition to their salaries, Ausgrid also provides post-employment benefits to key management personnel (see Notes 1(t) and 1(u)). For Directors post-employment benefit relates to compulsory superannuation contributions.

The allocation of the NNSW executive management team remuneration to Ausgrid is based on the proportion of customer numbers to the total customer numbers of Ausgrid, Endeavour Energy and Essential Energy combined.

The key management personnel compensation included in "employee benefits expense" (see Note 3(a)) are as follows:

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Short-term employee benefits	4.7	4.6
Long-term benefits	0.3	0.2
Post-employment benefits	0.3	0.4
Termination benefits	0.2	–
Total	5.5	5.2

21. RELATED PARTIES TRANSACTIONS

(i) Networks NSW structure

On 1 July 2012, NNSW operating model commenced with Ausgrid, Endeavour Energy and Essential Energy (DNSPs) having separate Boards with common Directors, a common Chairman and common Chief Executive Officer (CEO). NNSW is not a legal entity.

The Umbrella Cooperation Agreement facilitates cooperation between the energy distributors to enable the identification and delivery of reform and other efficiency measures by acting collectively and co-operatively.

On 27 August 2013 amendments to Energy Services Corporations Act (the governing legislation) were enacted to provide for the appointment of a single Board of Directors as the board of Ausgrid, Endeavour Energy and Essential Energy to act in their best interests as if they formed part of a combined operation.

On 4 June 2015, the *Electricity Network Assets (Authorised Transactions) Act 2015* and the *Electricity Retained Interest Corporations Act 2015* were enacted to allow the New South Wales Government to proceed with the long term lease of 49% of the State's electricity network (the Transaction), which is to include 50.4% of Ausgrid and Endeavour Energy (each being an electricity network SOC).

The *Electricity Retained Interest Corporations Act 2015* comes into effect upon proclamation (on a date yet to be announced).

Under the *Electricity Network Assets (Authorised Transactions) Act 2015* the joint board arrangements for Ausgrid, Endeavour Energy and Essential Energy (provided for by section 9A of the *Energy Services Corporations Act 1995*) will cease on a day notified by the Treasurer (this date has not yet been notified by the Treasurer).

The Corporation has determined that at the date of this report the proposed plan to lease 50.4% of Ausgrid does not meet the provisions of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* and as such no assets or liabilities have been treated as held for sale as at 30 June 2015.

Ausgrid and Controlled Entity

Notes to financial statements

For the year ended 30 June 2015

(ii) Joint venture

Further to the Umbrella Cooperation Agreement, the DNSPs have entered into a joint venture agreement for the purpose of realising cost savings through joint procurement and service provision activities. A legal entity Networks NSW Pty Limited has been used as the vehicle for this joint venture. Networks NSW Pty Limited will not incur any costs in its own right or enter into any sourcing agreements. Ausgrid has a one third ownership interest in Networks NSW Pty Limited.

(iii) Directors

Some Directors of Ausgrid are also Directors of other companies or have an interest in other companies or entities that may have had transactions with Ausgrid during the year. A Register of Directors' interests is maintained by the Board Secretary and updated as required during the year. In particular, in accordance with the Board Charter and the Corporation's Code of Conduct, Directors have declared any potential conflicts of interest in matters discussed at the meetings.

(iv) Subsidiaries

During the period ended 30 June 2015, Ausgrid provided funding to its subsidiary, Ausgrid Pty Ltd, to enable it to meet its commitments but did not receive any repayments from it. It is expected that this funding will continue in 2015/16. There were no loans (net) to the subsidiary at 30 June 2015 (2014: nil).

During the financial year, Ausgrid entered into a number of services for nil consideration with its subsidiary. These services have been categorised as follows:

- accounting services
- supply and rental of premises
- inter-company funding
- information technology services
- administrative and other services

The subsidiary is the lessee of 570 George Street, Sydney. Ausgrid has also provided the necessary cash facilities for the subsidiary, with respect to external transactions which were not settled by the subsidiary.

(v) Transactions with other related parties

The proclamation of the *Energy Services Corporations Amendment (Distributor Efficiency)* legislation discussed above has put Ausgrid, Endeavour Energy and Essential under the control of a single board of Directors. This new requirement means that transactions between these Corporations starting from 27 August 2013 should be disclosed as related parties. Transactions before 27 August 2013 are not considered to be between related parties. During the year Ausgrid purchased the contestable metering business from Endeavour Energy. This transaction was conducted at arms-length. In addition, the following transactions occurred with Essential Energy and Endeavour Energy.

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Network use of system income*	0.5	0.8
Management fee recharge income	9.9	6.8
Other income	2.6	3.8
	13.0	11.4
Network use of system expenses*	11.5	8.8
Management fee recharge expense	7.1	4.5
Other expenses	10.0	0.4
	28.6	13.7

*representing inter distributor charges.

(vi) Outstanding balances arising from sales/purchases of goods and services.

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	2015 \$M	2014 \$M
Current receivables		
– amounts receivable	3.9	5.1
Current payables		
– amounts payable	8.7	2.1

No impairment provision (2014: \$nil) in respect of receivables has been raised in relation to any outstanding balances, and no other expense has been recognised in respect of impaired receivables from related parties.

(vii) Terms and conditions

Management fee recharge income and recharge expenses are calculated at a rate which reflects the cost of providing the service, and are made on normal commercial terms and conditions.

Network use of system income recoveries are based on normal commercial terms and conditions. Network use of system income recoveries represent inter distributor charges where Ausgrid supplies electricity to other distribution network service providers (DNSPs), Endeavour Energy and Essential Energy, where the respective DNSPs are not in a position to get supply from a Bulk Supply Point (BSP).

Amounts receivable are unsecured and made on normal commercial terms and conditions. Amounts payable are unsecured and made on normal commercial terms and conditions.

22. REMUNERATION OF AUDITOR

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Amounts paid and payable to the Audit Office of New South Wales		
Audit of financial statements	0.4	0.4
Audit of regulatory returns	–	0.2
	0.4	0.6

23. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Contingent liabilities		
Guarantees provided to regulatory and statutory authorities	14.8	18.1
Potential claims from litigation	5.3	–
	20.1	18.1
Contingent assets		
Potential recoveries from pass through application – April 2015 storms	37.4	–
Potential recoveries from gross workers compensation claim payments	0.1	1.8
	37.5	1.8

Ausgrid and Controlled Entity

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For the year ended 30 June 2015

24. CAPITAL COMMITMENTS

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Capital commitments		
Commitments for the acquisition of property, plant and equipment contracted for at the reporting date but not recognised as liabilities, payable (including GST)	102.9	162.0
GST credits	9.3	14.7

25. LEASES

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Operating Leases		
Leases as lessee		
Non-cancellable operating leases are payable as follows:		
Within twelve months	18.4	23.8
Twelve months or longer and not longer than five years	32.3	37.9
Longer than five years	8.6	157.7
Total (including GST)	59.3	219.4
GST credits	5.4	19.9

Ausgrid leases various premises under operating leases including depot and office facilities, and a number of offices at interstate locations. Lease payments under these leases are subject to annual, bi-annual or three yearly reviews to reflect market rentals. None of the Corporation's operating leases include contingent rentals. There have been no properties sublet by the Corporation.

Ausgrid leases its passenger fleet and some light commercial fleet under operating leases. The majority of the fleet leases are fully maintained leases and typically run for a period of 3 or 4 years dependant on business requirements.

Ausgrid leases personal computers under operating leases. All personal computer leases are for a period of 3 years.

	Consolidated Entity & Ausgrid	
	2015 \$M	2014 \$M
Leases as lessor		
Ausgrid leases out its properties, including premises, land and communications towers, under operating lease agreements at market rentals, predominantly on a fixed term basis. The future minimum lease payments under non-cancellable leases are as follows:		
Within twelve months	4.5	19.5
Twelve months or longer and not longer than five years	5.8	6.4
Longer than five years #	6.8	6.9
Total (including GST)	17.1	32.8
GST debits	1.5	3.0

#The leases greater than 5 years are mainly leases with no fixed term contract and are expected to continue for an indefinite period. A period of 10 years has been disclosed in the Note.

Finance Leases

The Corporation has long term lease arrangements for land at Strathfield and Balgowlah. Ausgrid has reclassified these leases as finance leases from operating leases as at 30 June 2015. Lease payments relating to the Strathfield property is subject to three year review. The land lease at Balgowlah is prepaid.

Consolidated Entity & Ausgrid	
	2015 \$M
Commitments in relation to finance leases are payable as follows:	
Within twelve months	1.5
Twelve months or longer and not longer than five years	5.9
Longer than five years	66.2
Minimum lease payments	73.6
Future finance charges	(56.4)
Recognised as a liability	17.2
The present value of finance lease liabilities is as follows:	
Within twelve months	1.5
Twelve months or longer and not longer than five years	4.5
Longer than five years	11.2
Minimum lease payments	17.2

26. RECONCILIATION OF CASHFLOWS FROM OPERATING ACTIVITIES

Consolidated Entity & Ausgrid		
	2015 \$M	2014 \$M
Profit for the year	420.1	607.5
Add / (less) non-cash items:		
Depreciation and amortisation	579.6	677.5
Amortisation of unrealised capital (debt)	(4.4)	1.2
Capital contributions	(94.5)	(60.9)
Finance costs capitalised	(32.5)	(51.5)
Capital indexed bonds indexation	16.9	24.3
Impairment of trade receivables	(0.7)	2.2
(Gain) / loss on disposal of property, plant and equipment	10.0	(35.1)
Impairment / devaluation of non-current assets	4.7	0.2
(Profit) / loss on disposal of other non-current assets	0.3	(0.6)
Loss on close out liability contracts	–	1.1
(Increase) / decrease in fair value of financial instruments	(1.1)	1.1
Changes in assets and liabilities:		
Decrease in trade and other receivables	97.6	47.6
(Increase) / decrease in operating related inventories	(3.2)	1.7
Decrease in prepaid operating expenditure	14.7	0.4
Increase / (decrease) in accrued operating expenditure	77.0	(35.0)
(Decrease) in provision for income taxes payable	(54.7)	(112.6)
Increase / (decrease) in net deferred tax liabilities	28.2	(89.3)
(Decrease) in other provisions	(212.0)	(82.2)
(Decrease) in deferred revenue	(12.4)	(2.1)
(Decrease) in customer security deposits	(1.6)	(1.1)
Net cash from operating activities	832.0	894.4

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For the year ended 30 June 2015

27. SUPERANNUATION – DEFINED BENEFITS PLAN

Ausgrid has a defined benefit superannuation plan covering a significant number of employees, which requires contributions to be made to a separately administered fund.

a. Nature of the benefits provided by the fund

The Energy Industries Superannuation Scheme (the Scheme) is divided into seven divisions, of which Divisions B, C and D provide defined benefits, that is at least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. Divisions B, C and D are closed to new members except for members of eligible schemes who can transfer their entitlements into the Scheme.

Disclosures below are prepared in relation to Divisions B, C and D only; these Divisions are referred to collectively as "the Fund" hereafter.

b. Description of the regulatory framework

The Scheme was established on 30 June 1997 by a Trust Deed made under an Act of the NSW Parliament, for the purpose of providing retirement benefits for employees of certain Energy Industries bodies in NSW.

The Scheme is regulated primarily by the *Superannuation Industry (Supervision) Act 1993 (Cth)* ("the SIS legislation"), but is also subject to regulation under the *Superannuation Administration Act 1996 (NSW)*.

The SIS legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions, unless an exemption has been obtained.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans.

The Scheme has received an exemption from annual actuarial valuation and therefore actuarial valuations are only required triennially. The last actuarial valuation of the Scheme was performed as at 30 June 2012. The next actuarial valuation is due as at 30 June 2015 with the report expected to be released by the end of December 2015.

c. Risk exposure

There are a number of risks to which the Fund exposes the Employer. The more significant risks relating to the defined benefits are:

- **Investment risk** – The risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall.
- **Longevity risk** – The risk that pensioners live longer than assumed, increasing future pensions.
- **Pension indexation risk** – The risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- **Salary growth risk** – The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- **Legislative risk** – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

d. Description of other entities' responsibilities for the governance of the fund

The Scheme's Trustee is responsible for the governance of the Scheme. The Trustee has a legal obligation to act solely in the best interests of the Scheme beneficiaries. The Trustee has the following roles:

- Administration of the Scheme and payment to the beneficiaries from Scheme assets when required in accordance with the Scheme rules;
- Management and investment of the Scheme assets;
- Compliance with other applicable regulations, and
- Compliance with the Trust Deed.

e. Description of significant events

There were no fund amendments or curtailments during the year.

f. Reconciliation of the Net Defined Benefit Liability/(Asset)

The following tables summarise the components of net benefit expense recognised in the profit or loss, actuarial gains and losses recognised in other comprehensive income, and funded status and amounts recognised in the Statement of Financial Position of the Energy Industry Superannuation Scheme.

	Present value of obligation \$M	Fair value of plan assets \$M	Total \$M
At 1 July 2013	995.9	(729.5)	266.4
Current service cost	23.7	–	23.7
Interest expense/(income)	35.4	(27.3)	8.1
Expense/(income) recognised in profit or loss	59.1	(27.3)	31.8
Contributions by Fund participants			
Employers	–	(32.6)	(32.6)
Plan participants	7.9	(7.9)	–
	7.9	(40.5)	(32.6)
Remeasurements			
Return on plan assets, excluding amounts included in interest expense/(income)	–	(57.5)	(57.5)
(Gain)/loss from liability experience	5.5	–	5.5
(Gain)/loss from change in financial assumptions	21.3	–	21.3
Expense/(income) recognised in other comprehensive income	26.8	(57.5)	(30.7)
Benefits paid	(56.8)	56.8	–
Taxes, premiums and expenses paid	(6.3)	6.3	–
At 30 June 2014	1 026.6	(791.7)	234.9
At 1 July 2014	1 026.6	(791.7)	234.9
Current service cost	21.7	–	21.7
Interest expense/(income)	34.4	(27.7)	6.7
Settlement	(125.0)	114.9	(10.1)
Expense/(income) recognised in profit or loss	(68.9)	87.2	18.3
Contributions by Fund participants			
Employers	–	(30.7)	(30.7)
Plan participants	6.2	(6.2)	–
	6.2	(36.9)	(30.7)
Remeasurements			
Return on plan assets, excluding amounts included in interest expense/(income)	–	(22.3)	(22.3)
(Gain)/loss from change in liability experience	(49.4)	–	(49.4)
(Gain)/loss from change in financial assumptions	(37.9)	–	(37.9)
Expense/(income) recognised in other comprehensive income	(87.3)	(22.3)	(109.6)
Benefits paid	(143.0)	143.0	–
Taxes, premiums and expenses paid	(11.7)	11.7	–
At 30 June 2015	721.9	(609.0)	112.9

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g. Fair value of Fund assets

All Division B, C and D assets are held in Pool B of the Scheme, Pool B in turn holds units invested in the Energy Investment Fund, a pooled superannuation trust. As such, assets are not separately invested for each employer and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities, and the disclosures below relate to total assets of Pool B of the Scheme.

As at 30 June 2015

Asset category	Total \$M	Quoted prices in active markets for identical assets Level 1 \$M	Significant observable inputs Level 2 \$M	Unobservable inputs Level 3 \$M
Energy Investment Fund	2 351.1	—	2 351.1	—
Total	2 351.1	—	2 351.1	—

As at 30 June 2014

Asset category	Total \$M	Quoted prices in active markets for identical assets Level 1 \$M	Significant observable inputs Level 2 \$M	Unobservable inputs Level 3 \$M
Energy Investment Fund	2 377.1	—	2 377.1	—
Total	2 377.1	—	2 377.1	—

Some Pool B assets are invested in accordance with member investment choices. For Pool B assets invested in the Energy Investment Fund but not subject to member investment choice, the percentage invested in each asset class at the reporting date is:

As at	30 June 2015	30 June 2014
Australian Equities	12%	17%
International Equities	36%	23%
Emerging Market Equities	—	4%
Property	4%	7%
Private Equity	2%	1%
Infrastructure	7%	10%
Alternatives	32%	25%
Fixed Income	—	12%
Cash	7%	1%
Total	100%	100%

Derivatives can be used by investment managers, however strict investment guidelines detail all limits approved on the use of derivatives. The use of derivatives is governed by the investment policies, which permit the use of derivatives to change the Fund's exposure to particular assets. The Trustee requires derivative financial instruments are not entered into for speculative purposes or to gear the Fund, and that all derivatives positions are (a) fully cash covered; (b) are offset to existing assets; or (c) are used to alter the exposures in underlying asset classes. Compliance with policies and exposure limits are reviewed by the Trustee on a continual basis. As such the investment managers make limited use of derivatives.

h. Fair value of Corporation's own financial instruments

The fair value of Plan assets includes no amounts relating to:

- any of the Corporation's own financial instruments
- any property occupied by, or other assets used by, the entity.

i. Significant Actuarial Assumptions at the Reporting Date

	2015	2014
Expected salary increase rate (excluding promotional increases)	0% pa until 31 Dec 2016 and 2.5% pa thereafter	2.7% pa until 31/12/2014 and 3.5% pa thereafter
Rate of CPI increase	2.5% pa	2.5% pa
Discount rate	3.03% pa	3.6% pa
Pensioner mortality	As per the 2012 Actuarial Investigation of the fund.	Based on Mercer 2005–09 Standard Pensioner Mortality Table

j. Sensitivity Analysis

The entity's total defined benefit obligation as at 30 June 2015 under several scenarios is presented below.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

30 June 2015

	Base Case	Scenario A –1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	3.03%	2.03%	4.03%
Rate of CPI increase	2.5%	2.5%	2.5%
Salary inflation rate	0% pa until 31 Dec 2016 and 2.5% pa thereafter	0% pa until 31 Dec 2016 and 2.5% pa thereafter	0% pa until 31 Dec 2016 and 2.5% pa thereafter
Defined benefit obligation (\$M)	721.9	809.7	651.6

	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D –0.5% rate of CPI increase
Discount rate	3.03%	3.03%	3.03%
Rate of CPI increase	2.5%	3.0%	2.0%
Salary inflation rate	0% pa until 31 Dec 2016 and 2.5% pa thereafter	0% pa until 31 Dec 2016 and 2.5% pa thereafter	0% pa until 31 Dec 2016 and 2.5% pa thereafter
Defined benefit obligation (\$M)	721.9	737.1	708.2

	Base Case	Scenario E +0.5% salary increase rate	Scenario F –0.5% salary increase rate
Discount rate	3.03%	3.03%	3.03%
Rate of CPI increase	2.5%	2.5%	2.5%
Salary inflation rate	0% pa until 31 Dec 2016 and 2.5% pa thereafter	0.5% pa until 31 Dec 2016 and 3% pa thereafter	0% pa until 31 Dec 2016 and 2% pa thereafter
Defined benefit obligation (\$M)	721.9	749.5	702.0

	Base Case	Scenario G +5% pensioner mortality rates	Scenario H –5% pensioner mortality rates
Defined benefit obligation (\$M)	721.9	719.4	724.6

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

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k. Asset-Liability matching strategies

We are not aware of any asset and liability matching strategies currently adopted by the Fund.

l. Funding arrangements

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2012. Contribution rates are set after discussions between the employer and the trustee.

The next triennial review is due as at 30 June 2015, the report is expected to be released by the end of December 2015.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

Surplus/deficit

The following is a summary of the 30 June 2015 financial position of the Fund calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*:

	2015 \$M	2014 \$M
Accrued benefits	536.4	763.7
Net market value of Fund assets	(609.0)	(791.7)
Net (surplus)/deficit	(72.6)	(28.0)

Contribution recommendations

Recommended contribution rates for the Corporation are:

Division B multiple of member contributions	Division C % member salary	Division D multiple of member contributions	Additional Lump Sum \$ pa
1.9	2.5%	1.64	13 857 000

Economic assumptions

The economic assumptions adopted for the 30 June 2015 AAS25 calculations above:

Weighted-Average Assumptions	
Expected rate of return on Fund assets backing current pension liabilities	7% pa
Expected rate of return on Fund assets backing other liabilities	7% pa
Expected salary increase rate	0% pa until 31/12/2016 and 2.5% pa thereafter
Expected rate of CPI increase	2.5%

	Financial Year to 30 June 2016 \$M
Expected contributions	
Expected employer contributions	24.4

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 13.7 years.

Nature of Asset/Liability

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary. Where a deficiency exists, the employer is responsible for any difference between the employer's share of Fund assets and the defined benefit obligation.

28. EVENTS SUBSEQUENT TO REPORTING DATE

The financial statements for the year ended 30 June 2015 were authorised for issue by the Directors on 10 September 2015.

There are no known events that would impact the state of affairs of the consolidated entity or have a material impact on the financial statements.

Ausgrid and Controlled Entity

Statement by Directors

For the Year Ended 30 June 2014

Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, we state that in the opinion of the Directors of Ausgrid:

- (a) The accompanying financial statements and notes are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (and also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and, the *Public Finance and Audit Regulation 2015*, and Accounting Interpretations and give a true and fair view of the financial position of Ausgrid as at 30 June 2015 and its financial performance for the year ended on that date;
- (b) At the date of this statement, there are reasonable grounds to believe that Ausgrid will be able to pay its debts as and when they become due and payable; and
- (c) We are not aware of any circumstances at the date of this statement that would render any particulars included in the financial report to be misleading or inaccurate.

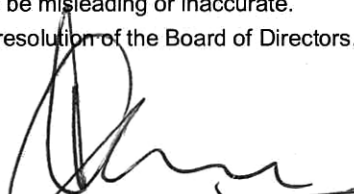
This declaration is made in accordance with a resolution of the Board of Directors.



Vince Graham
Chief Executive Officer

Sydney

10 September 2015



Roger Massy-Greene
Chairman

10 September 2015

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

Ausgrid

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of Ausgrid (the Corporation), which comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information of the Corporation and the consolidated entity. The consolidated entity comprises the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation and the consolidated entity as at 30 June 2015, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015
- comply with International Financial Reporting Standards as disclosed in Note 1(b).

My opinion should be read in conjunction with the rest of this report.

Directors' Responsibility for the Financial Statements

The directors are responsible for preparing financial statements that give a true and fair view in accordance with Australian Accounting Standards, the PF&A Act and the *State Owned Corporations Act 1989*, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Ausgrid and Controlled Entity

Independent Auditor's Report

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Corporation or consolidated entity
- that it carried out its activities effectively, efficiently and economically
- about the effectiveness of the internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about other information that may have been hyperlinked to/from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by the possibility of losing clients or income.



A T Whitfield PSM
Acting Auditor-General

14 September 2015
SYDNEY

Ausgrid Pty Limited ACN 060 979 688

Statement of Comprehensive Income

For the year ended 30 June 2015

	Notes	2015 \$	2014 \$
Revenue	2	7 947 856	367 484
Remuneration of auditor		(1 750)	(1 750)
Other expenses	3	(7 947 856)	(367 484)
Loss before income tax		(1 750)	(1 750)
Income tax expense/(credit)	4	(525)	(525)
Loss for the year	5(b)	(1 225)	(1 225)
Other comprehensive income for the year, net of tax		—	—
Total comprehensive loss for the year		(1 225)	(1 225)

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

Ausgrid Pty Limited ACN 060 979 688

Statement of Financial Position

For the year ended 30 June 2015

	Notes	2015 \$	2014 \$
Total assets		—	—
Total liabilities		—	—
Net assets		—	—
Equity			
Contributed equity	5(a)	4 473 073	4 471 848
Accumulated losses	5(b)	(4 473 073)	(4 471 848)
Total equity		—	—

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

Ausgrid Pty Limited ACN 060 979 688

Statement of Changes in Equity

For the year ended 30 June 2015

	Notes	Contributed equity \$	Accumulated losses \$	Total \$
Balance at 1 July 2013		4 470 623	(4 470 623)	–
Loss for the year	5(b)	–	(1 225)	(1 225)
Other comprehensive income for the year		–	–	–
Total comprehensive loss for the year		–	(1 225)	(1 225)
Transactions with owners, recorded directly in equity				
Loan owed to parent entity recognised as equity		1 225	–	1 225
Total transactions with owners		1 225	–	1 225
Balance at 30 June 2014		4 471 848	(4 471 848)	–
Loss for the year		–	(1 225)	(1 225)
Other comprehensive income for the year		–	–	–
Total comprehensive loss for the year		–	(1 225)	(1 225)
Transactions with owners, recorded directly in equity				
Loan owed to parent entity recognised as equity		1 225	–	1 225
Total transactions with owners		1 225	–	1 225
Balance at 30 June 2015		4 473 073	(4 473 073)	–

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

Ausgrid Pty Limited ACN 060 979 688

Statement of Cash Flows

For the year ended 30 June 2015

	Notes	2015 \$	2014 \$
Cash flows from operating activities			
Receipts from customers		–	–
Payments to suppliers and employees		–	–
Net cash outflow from operating activities	8	–	–
Investing activities		–	–
Financing activities			
Increase in Loan to Parent Entity		–	–
Total financing activities		–	–
Net decrease in cash and cash equivalents		–	–
Opening cash and cash equivalents		–	–
Closing cash and cash equivalents		–	–

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

Ausgrid Pty Limited ACN 060 979 688

Notes to financial statements

For the year ended 30 June 2015

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were authorised for issue by the Directors on 16 September 2015.

a. Basis of preparation

The financial statements are presented in Australian dollars and prepared on the historical cost basis.

b. Statement of compliance

The financial statements comprise a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including the Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board, the requirements of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2015, and the State Owned Corporations Act 1989. The financial statements of the Company also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

c. Income tax

The Company is exempt from federal income tax under the Income Tax Assessment Acts. However, the Company is subject to the National Tax Equivalent Regime which is based on the Income Tax Assessment Acts. Tax equivalents are payable to the Office of State Revenue.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts

used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation

The Company is a wholly-owned subsidiary in a tax-consolidated group with Ausgrid as the head entity. The implementation date of the tax consolidation system for the tax-consolidated group was 1 July 2003.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'group allocation' approach by reference to the carrying amounts of the assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the Company is assumed by the head entity of the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with

any tax funding arrangement amounts (refer below).

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

The Company, in conjunction with other members of the tax-consolidated group, has 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 arrangements require payments to/ from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the Company recognising an inter-entity payable (receivable) equal in amount to the tax liability (asset) assumed. The inter-company payable (receivable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

d. Rounding of amounts

The amounts shown in the accounts have been rounded to the nearest dollar and are expressed in Australian currency.

e. Going concern

The financial statements of the Company have been prepared on a going concern basis adopting the principles of historical cost accounting. This basis has been adopted as the Directors have received a guarantee of continuing financial support from the ultimate parent entity, and it is the Directors' belief that such financial support will continue to be made available.

f. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flow on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

g. Remuneration of auditors

The financial audit fees for the Company for the year ended 30 June 2015 amounted to \$1,750 (\$1,750 in 2014).

h. Revenue recognition

The Company (as licensor) has entered into a licence agreement with its parent entity, Ausgrid (as licensee) for its right to use the office premises held under an operating lease. The Company receives a licence fee at the same time and in the same manner as the rent is paid or payable under the lease.

i. Lease**As lessee**

Payments made under an operating lease are recognised in profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit and loss as an integral part of

the total lease expense and spread over the lease term.

The Company has not entered into any finance leases as at reporting date. Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases.

j. New and revised accounting standards and Australian Accounting Interpretations

Certain new and revised accounting standards and Australian Accounting Interpretations have been published that are not mandatory for the 30 June 2015 reporting period. The Company has assessed that these new standards and interpretations, which have not been early adopted, will not impact the financial statements.

2. REVENUE

	2015 \$	2014 \$
Licence fees received	7 947 856	367 484
	7 947 856	367 484

3. OTHER EXPENSES

	2015 \$	2014 \$
Operating lease rental	7 947 856	367 484
	7 947 856	367 484

4. INCOME TAX EXPENSE

	2015 \$	2014 \$
Recognised in the Statement of Comprehensive Income		
Current tax expense		
Current year	–	–
Adjustments for prior years	–	–
Deferred tax expense		
Benefit of tax losses recognised	(525)	(525)
	(525)	(525)

Numerical reconciliation between tax expense and pre-tax profit

	2015 \$	2014 \$
Loss before tax	(1 750)	(1 750)
Income tax using the domestic corporation tax rate of 30% (2014: 30%)	(525)	(525)
Income tax expense/(credit) on pre-tax net profit/(loss)	(525)	(525)

Ausgrid Pty Limited ACN 060 979 688

Notes to financial statements

For the year ended 30 June 2015

5. EQUITY

a. Contributed equity

	2015 \$	2014 \$
Authorised capital		
1 000 000 Ordinary shares of \$1 each	1 000 000	1 000 000
Issued and paid up capital		
2 Ordinary shares of \$1 each	2	2
Loan owed to parent entity recognised as equity	4 473 071	4 471 846
	4 473 073	4 471 848

b. Accumulated losses

	2015 \$	2014 \$
Accumulated losses at the beginning of the year	(4 471 848)	(4 470 623)
Loss for the year	(1 225)	(1 225)
Accumulated losses at the end of the year	(4 473 073)	(4 471 848)

6. RELATED PARTY TRANSACTIONS

a. Director

Lisa Maffina

b. Directors' benefits

No Director has received or become entitled to receive any benefit by reason of a contract made by the Company with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

7. OPERATING LEASES

	2015 \$	2014 \$
Leases as lessee		
Non-cancellable operating leases are payable as follows:		
Within twelve months	9 408 538	8 790 383
Twelve months or longer and not longer than 5 years	18 648 805	19 084 572
Longer than five years	—	—
Total (including GST)	28 057 343	27 874 955
GST credits	2 550 668	2 534 087

8. STATEMENT OF CASH FLOWS

During the financial year, the Company did not have an operating bank account or any cash equivalents. As a result, there are no cash inflows or outflows.

9. ULTIMATE PARENT ENTITY

The Company's ultimate parent entity is Ausgrid.

During the period ended 30 June 2015, Ausgrid provided funding to the Company to enable it to meet its commitments but did not receive any repayments from it. It is expected that this funding will continue in 2015/16. There were no loans (net) to the Company at 30 June 2015 (2014: nil).

During the financial year, Ausgrid entered into a number of services for nil consideration with the Company. These services have been categorised as follows:

- accounting services
- supply and rental of premises
- inter-company funding
- information technology services
- administrative and other services

The Company is the lessee of 570 George Street, Sydney. Ausgrid has also provided the necessary cash facilities for the Company, with respect to external transactions which were not settled by the Company.

10. CONTINGENT ASSETS AND LIABILITIES

At balance date the company had no legal matters outstanding which are expected to result in material claims for or against it (nil 2014).

11. SUBSEQUENT EVENTS

There have been no events subsequent to balance date.

END OF AUDITED FINANCIAL STATEMENTS

Ausgrid Pty Limited ACN 060 979 688

Statement by Director

For the Year Ended 30 June 2015

Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, I state that in the opinion of the Director of Ausgrid Pty Limited:

- a) The accompanying financial statements and notes are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2015*, and Accounting Interpretations, and give a true and fair view of the financial position of Ausgrid Pty Limited as at 30 June 2015 and its financial performance for the year ended on that date.
- b) At the date of this statement, there are reasonable grounds to believe that Ausgrid Pty Limited will be able to pay its debts as and when they become due and payable.
- c) I am not aware of any circumstances at the date of this statement that would render any particulars included in the financial report to be misleading or inaccurate.

This declaration is made in accordance with a resolution of the Board of Director.



Lisa Maffina
Director

16 September 2015

Ausgrid Pty Limited ACN 060 979 688

Independent Auditor's Report

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of Ausgrid Pty Limited (the Corporation), which comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2015, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015
- comply with International Financial Reporting Standards as disclosed in Note 1(b).

My opinion should be read in conjunction with the rest of this report.

Directors' Responsibility for the Financial Statements

The directors are responsible for preparing financial statements that give a true and fair view in accordance with Australian Accounting Standards, the PF&A Act and the *State Owned Corporations Act 1989* and for such internal control as the directors determine is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Ausgrid Pty Limited ACN 060 979 688

Independent Auditor's Report (cont)

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Corporation
- that it carried out its activities effectively, efficiently and economically
- about the effectiveness of the internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about other information that may have been hyperlinked to/from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by the possibility of losing clients or income.



Renee Meimaroglou
Director, Financial Audit Services

21 September 2015
SYDNEY

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Appendices (cont.)

Table Five Year statistical table

The number of employees as at 30 June 2015 was 4,613 employees. This consists of full time and part time employees and excludes people that are considered Labour hire, Contracted Services, or are on the Ausgrid Board.

Five-year statistical table

	(1)	2010/11*	2011/12	2012/13	2013/14	2014/15
EFFICIENCY						
Employment	(2)	5,941	5,869	5,713	5,390	4,568
Output/employee (GWh)		5.02	4.87	4.61	4.74	5.85
Sales revenue (\$m)	(3)	3,758.5	2,525.3	2,896.5	2,877.5	2,845.8
Customer/employee ratio		265.15	270.24	287.68	308.12	367.67
Operating cost/unit sold (\$/MWh)		37.25	38.54	44.16	54.34	47.60
Operating cost/customer (\$/customer)		705	695	708	835	756
System loss index (%)		3.9%	3.7%	4.0%	3.8%	4.0%
Days sick leave/employee	(4)	6.3	6.4	7.9	8.7	8.7
Lost time incidents frequency rate (LTIFR)		4.9	4.5	3.3	1.8	1.4
EFFECTIVENESS						
Output (GWh)		30,570	29,345	26,338	25,523	25,630
Supply reliability (minutes)		98.08	82.14	67.74***	76.52	71.40
Customer service indicator	(5)					
Target		>95%	–	–	≥75%	≥80%
Result		93%	93%	80%	77.5%	78.7%
FINANCIAL INDICATORS						
EBIT (\$m)		984.0*	1,118.2	1,496.9	1,371.4	1,198.7
Operating profit after tax (\$m)		325.9*	350.6	706.2	607.5	420.1
Revenue (\$m)	(6)	4,070.0	2,926.1	3,345.5	3,299.6	3,173.4
Return on assets (%)	(7)	9.1*	9.3	10.9	8.5	7.4
Return on equity (%)	(8)	17.2*	18.4	23.2	14.1	9.3
Asset base (\$m)		11,270.4	12,777.7	16,163.5**	16,246.0**	16,083.8**
Asset sales (\$m)	(9)	4.7	4.7	4.1	154.2	48.4
Financial distribution (\$m)		1,733.6	384.4	755.7	548.8	589.0
Tax equivalent (\$m)	(10)	188.5	144.5	293.1	167.1	176.7
Dividend		175.1	239.9	462.6	381.7	294.0
Special dividend		1,370.0	–	–	–	118.3
Gross external debt (\$m)		6,791.8	8,182.0	8,502.6	8,696.3	8,992.1
Gearing ratio (%)	(11)	77.6	80.7	66.8	66.2	66.6
Times interest earned	(12)	2.6*	2.0	3.0	3.4	3.0

Prior year statistics may have changed in line with amendments to comparative financial statement disclosures and amended definitions, to ensure consistency on an annual basis.

*For comparison, the sale from the retail business of \$1,247.9 million has been excluded from the 10/11 results

**For comparison purposes, deferred tax assets have been netted against deferred tax liabilities

***Data improvements during 2013/14, to customer interruption records for the 2012/13 year, resulted in a slight decrease in reported average customer minutes without supply for 2012/13

Notes

- (1) All dollar amounts are reported in real dollars.
- (2) FTE data does not equal Headcount. FTE numbers consider the work schedule of the employee.
- (3) Sales revenue includes total electricity sales, network use of system income and transmission revenue.
- (4) Sick Leave Days are based on an 8-hour day. Absenteeism at Ausgrid can be consistently reported from FY10/11. The measure of Absenteeism was changed in FY12/13 and

- terminated employees were removed from the data upon exit. The above data includes retrospective data entries.
- (5) The Customer Service Indicator was based on an index covering both Retail and Network factors to February 2011 due to sale of retail business. From 1 July 2011 the Customer Satisfaction Indicator was determined on Network factors only, which means this data is not comparable.
- (6) Revenue includes sales revenue and other income, including capital contributions.

- (7) EBIT divided by the average asset base.
- (8) Operating profit after tax divided by average equity.
- (9) Total proceeds from asset sales.
- (10) Defined as income tax expense per NSW Treasury.
- (11) Debt divided by debt plus equity.
- (12) Times interest earned calculated by adding the net interest expense to the profit before income tax and dividing by the net interest expense.

Consultancies

Ausgrid engaged three consultancies for major projects (more than \$50,000) totalling \$6.3 million as detailed below.

An additional two consultancies were engaged on other projects costing or less than \$50,000 each. The total cost of these engagements was \$86,300 as detailed below.

Consultant Name	Project	\$
Huegin Consulting Group Pty Ltd	Business Cost Benchmarking	155,500
Leading Edge Safety Systems Pty Ltd	NNSW Safety Culture Assessment	199,330
PWC Strategy & (Australia) Pty Ltd	NNSW Sustainability Review Project	5,924,857
Total		6,279,687

The PWC Strategy & (Australia) Pty Ltd and Leading Edge Safety Systems consultancy fees of \$6.1 million were incurred by Ausgrid as commissioning agency on behalf of Networks NSW. \$3.1 million of this amount was recovered from Endeavour Energy and Essential Energy through a management fee.

Category	\$
Management Services	86,300
Total	86,300

Credit card certification

Ausgrid's corporate and purchasing card program is governed by approved policies and procedures that were developed and aligned to the Treasury Circular NSW TC 11/15 Use of Purchasing Cards and Electronic Payment Methods Policy, issued in December 2011.

Digital Information Security

Ausgrid's information security management system (ISMS) is based and modelled on the ISO27001 standard and framework as recommended by the NSW Government. It contains a set of internal policies and procedures related to digital information security. Ausgrid undertakes a managed process of vulnerability testing and internal audits to test its controls and to mitigate identified risks to its information assets. Due to the evolution of information security threats an annual continuous program is developed and implemented to maintain an acceptable risk profile for the organisation. The current ISMS (including planned improvements) and associated digital information systems security controls are deemed adequate for the foreseeable future.

Disclosure of approved exemptions

A list of financial and annual reporting exemptions for agencies not in competition:

Payment of accounts <ul style="list-style-type: none"> performance in paying accounts, including action to improve payment performance. 	Schedule 1 ARSBR	Statutory State Owned Corporations are not subject to the payment of accounts provisions in c13 of the <i>Public Finance and Audit Regulation 2010</i> .
Time for payment of accounts <ul style="list-style-type: none"> reasons for late payments interest paid due to late payments. 	Schedule 1 ARSBR	As above.
Rounding off – all amounts shown in the financial report of a statutory body may be expressed by reference to the nearest \$1,000.	Clause 5 – <i>Public Finance and Audit Regulation 2010</i>	The Corporation is exempt from Part 2 paragraph 5 of the <i>Public Finance and Audit Regulation 2010</i>

Appendices (cont.)

Executive Remuneration

Group Executive employed by Ausgrid

An eight-member Executive Leadership Group (ELG) was established to drive industry reform in October 2012. Each Group Executive is paid by a nominated business. Ausgrid is responsible for contractual payments to the following executives and these costs are then shared by the three network businesses.

General principles for remuneration of Executive Managers

Ausgrid's remuneration strategies are designed to attract and retain Executive Managers who drive business performance and who consistently demonstrate high standards of behaviour in line with Ausgrid's values and Code of Conduct.

Components of remuneration

Ausgrid Executive Managers are employed under performance-based employment contracts. Total remuneration for Executive Managers consists of fixed remuneration (the annual salary paid inclusive of superannuation contributions and all salary sacrificed benefits), and an annual "at risk" payment that represents the proportion of total remuneration that is "at risk" for each Executive Manager

Fixed remuneration

As a condition of employment, fixed remuneration of Executive Managers is reviewed in July each year, in line with market trends, and is based on rigorous performance assessments of each Executive Manager. In approving increases to the fixed remuneration of Executive Managers, the Board considers the outcomes of performance assessments and NSW State Wages Policy.

Annual "at risk" payment

Annual "at risk" payments are made to contract managers on the basis of individual performance assessed against pre-agreed measures and targets aligned to Ausgrid's Corporate Plan and Statement of Corporate Intent (SCI). Eligibility is contingent on a rigorous assessment of leadership performance and achievement of business targets and priorities for each manager during the course of the year. The Board or the Chief Executive Officer as appropriate reviews the performance assessments and approves all "at risk" performance payments to Executive Managers.

Two year wage freeze

All Ausgrid employees employed under contract have their fixed annual remuneration reviewed in July each year. The NSW Government wages policy constrains the average increase to 2.5% per annum. Following a 2.5% average increase in July 2014 contract managers remuneration was not increased in July 2015, and is not intended to be increased in July 2016.

Group Executive employed by Ausgrid

An eight-member Executive Leadership Group (ELG) was established to drive industry reform in October 2012. Each Group Executive is paid by a nominated business. Ausgrid is responsible for contractual payments to the following executives and these costs are then shared by the three network businesses.

Unless otherwise stated, all Executives held their position for the full financial year.

Name	Position at 30 June 2015	Remuneration ^a	"At risk" payment	2014/15 Performance criteria
Vince Graham	CEO Ausgrid, Endeavour Energy and Essential Energy	Paid by Endeavour Energy	Paid by Endeavour Energy	See Endeavour Energy Annual Report
Lisa Maffina	Board Secretary	\$309,934	\$41,440	<ul style="list-style-type: none"> • Provided effective governance support to the board and its committees. • Managed the delivery of cost effective insurance arrangements and improved governance frameworks for insurance renewals. • Implemented improvements to board reporting. • Provided governance support to Networks NSW executive committees.
John Hardwick	Group Executive Network Strategy	\$430,756	\$71,500	<ul style="list-style-type: none"> • Implemented common fleet policy which removed 2,390 vehicles since July 2012. • Established a comprehensive strategic safety plan for network fatal risks. • Embedded a common risk based approach to vegetation management. • Delivered over \$125m p.a. of savings through joint procurement sourcing. • Established a Future Network Strategy. • Common pole management strategy which will deliver lower overall risk at a lower cost.

a. excludes "at risk" payment.

Senior employee salaries

Name	Position at 30 June 2015	Remuneration ^a	"At risk" payment	2014/15 Performance criteria
Trevor Armstrong	Chief Operating Officer	\$483,287	\$64,430	<ul style="list-style-type: none"> Significant improvement in safety performance. Strong network reliability performance with SAIDI 14% (11.9 minutes) below target. Led the businesses response and stakeholder management to the largest storm to impact Ausgrid in April, affecting over 275,000 customers. Delivered Ausgrid's Substantive Regulatory Proposal to the Australian Energy Regulator for the 2014/19 regulatory period. Finalised the delivery of Transitional Services Arrangements which provided retail related services to EnergyAustralia ahead of budget and on time. Safely delivered substantial operating expenditure reductions to further contain network price increases.
Pamela Henderson	Chief Engineer	\$313,000	\$50,080	<ul style="list-style-type: none"> Significant leadership role in the delivery of Ausgrid's 2014/19 regulatory submission to the Australian Energy Regulator. Delivered a revised suite of asset management policies and standards in line with industry best practice. Implemented revised processes for the identification and justification of future capital investment.
Brett Hooper	General Manager Network Development	\$348,000	\$45,240	<ul style="list-style-type: none"> Implemented program for contractor safety performance reporting. Made a significant personal contribution to the development of a new investment governance framework. Developed and consulted on the implementation of a "blended delivery" model which will see elements of future capital works delivered by the external market.
David Pengilly	General Manager Network Operations	\$362,000	\$53,395	<ul style="list-style-type: none"> Exhibited significant leadership in promoting cultural change in the areas of safety leadership, management performance and customer service. Implemented productivity programs to deliver better business efficiencies – including fleet reductions and overtime management. Strong focus on safety performance which contributed to organisational safety outcomes. Significant personal contribution to the management and restoration efforts arising out of April storm event.
Kirsten Watson^b	General Manager People & Services	\$101,507	\$13,957	<ul style="list-style-type: none"> Significant personal contribution and leadership with respect to the negotiation of a new Enterprise Agreement. Delivered key initiatives associated with current and future workforce requirements. Continuing focus on delivering a new procurement framework that aligns with current business needs. Implementation of new on-line customer service tools.
Joseph Pizzinga^c	General Manager Finance & Compliance	\$407,350	\$67,212	<ul style="list-style-type: none"> Significant leadership role in the delivery of Ausgrid's 2014/19 regulatory submission to the Australian Energy Regulator. Finalised the provision of Transitional Service Arrangements to EnergyAustralia ahead of schedule and budget. Strong personal contribution and leadership with respect to the achievement of financial targets for Ausgrid and across Networks NSW.
Peter York	General Manager Health Safety & Environment	\$281,000	\$35,968	<ul style="list-style-type: none"> Significant personal contribution to the operationalisation of controls relating to the management of risks with the potential for serious or fatal outcomes. Delivered year on year safety performance results. Implemented a new safety leadership competency framework.

a. excludes "at risk" payment.

b. Kirsten Watson was appointed to this position, effective 9 March 2015.

c. Joseph Pizzinga was seconded in the position of Group CFO for the period 30 March 2015 to 30 June 2015.

Other changes to Ausgrid's Executive Leadership Team during 2014-15

Sharron Kennedy, General Manager Information Communication & Technology ceased employment with Ausgrid on 25 June 2015.

Appendices (cont.)

Senior managers

⁽¹⁾ Band	2013-14		2014-15	
	Female	Male	Female	Male
⁽²⁾ Above Band 4	0	1	0	2
Band 4	0	3	0	1
Band 3	9	10	8	15
Band 2	3	36	3	36
Band 1	45	164	45	164
⁽³⁾ Below Band 1	59	87	48	56
	116	301	104	274
Totals	417		378	

(1) Bands are as defined in the 2014 NSW Public Service Senior Executives Determination (dated 11 July 2014) under the Government Sector Employment Act 2013. Reporting is limited to contract managers employed on individual performance-based employment contracts.

(2) Includes contract managers employed on individual performance based contracts receiving remuneration at levels above Band 4. The common CEO of all three network businesses is included in Endeavour Energy's statistics.

(3) Includes contract managers employed on individual performance based contracts receiving remuneration at levels below Band 1.

Band	Band	⁽¹⁾ Average Remuneration	
		⁽²⁾ 2013-14	2014-15
Above Band 4	> 497,300	\$542,225	\$555,780
Band 4	430,451 – 497,300	\$468,341	\$475,097
Band 3	305,401 – 430,450	\$335,980	\$334,017
Band 2	242,801 – 305,400	\$259,720	\$262,811
Band 1	170,250 – 242,800	\$197,572	\$204,363
Below Band 1	< 170,250	\$148,686	\$156,013

(1) Average remuneration is based on: FTE Fixed Annual Remuneration (FAR); 60% of the maximum At Risk Reward for eligible employees, calculated on FTE FAR; and car allowance, if applicable

(2) Average remuneration amounts above for 2013/2014 have been re-calculated to accommodate the revised PSC bands for 2014/2105 reporting.

11.51% of Ausgrid's employee related expenditure in 2014/15 was related to senior managers, compared with 11.41% in 2013/14.

Funds granted to non-government community organisations

We have a responsibility to support the communities in which we operate and to assist in their development and growth. Ausgrid supported a range of organisations through our Community Investment program which includes sponsorships, employee payroll giving and University Chair Partnerships in 2014/15. The table below details all non – government organisations and charities supported during 2014/15 through Ausgrid's Community Investment program.

Name of recipient organisation	Program area as per budget <i>eg Sponsorships, Payroll Match-Giving Program Beneficiaries, etc</i>	Purpose	Target Group
Payroll Giving Program Beneficiaries			
Alzheimer's Australia NSW	Payroll Match-Giving Program	Health	Community
Australian Red Cross*	Payroll Match-Giving Program	Health	Community
NSW Cancer Council*	Payroll Match-Giving Program	Health	Community
Calvary Mater Newcastle	Payroll Match-Giving Program	Health	Community
Commando Welfare Trust	Payroll Match-Giving Program	Social welfare	Community
DebRA Australia	Payroll Match-Giving Program	Health	Community
The Fred Hollows Foundation	Payroll Match-Giving Program	Health	Community
Ausgrid Employee's Children's Appeal*	Payroll Match-Giving Program	Health	Community
Westpac Rescue Helicopter Service (Hunter)*	Payroll Match-Giving Program	Emergency Services	Community
Westpac Life Saver Helicopter Sydney and South Coast*	Payroll Match-Giving Program	Emergency Services	Community
National Heart Foundation of Australia NSW Division*	Payroll Match-Giving Program	Health	Community
House with No Steps	Payroll Match-Giving Program	Social welfare	Community
Lifeline*	Payroll Match-Giving Program	Health	Community
National Breast Cancer Foundation	Payroll Match-Giving Program	Health	Community
Ovarian Cancer Australia	Payroll Match-Giving Program	Health	Community
Odyssey House McGrath Foundation	Payroll Match-Giving Program	Social welfare	Community
Police Citizens Youth Clubs NSW	Payroll Match-Giving Program	Youth	Community
RSPCA NSW*	Payroll Match-Giving Program	Animal welfare	Community
The Smith Family	Payroll Match-Giving Program	Social welfare	Community
SIDS & Kids Hunter Region	Payroll Match-Giving Program	Health	Community
Taronga Foundation	Payroll Match-Giving Program	Conservation	Community
Youth off the Streets Limited*	Payroll Match-Giving Program	Youth	Community
Partnership Beneficiaries			
NSW Rural Fire Service	Sponsorship	Community and Safety	Community
Surf Life Saving (Northern Beaches, Central Coast and Hunter)	Sponsorship	Energy Efficiency & Sustainability	Community
Sydney Burns Foundation	Research Partnership	Education & Innovation	Community
The University of Newcastle Chair of Intelligent Electricity Networks	Research Partnership	Education & Innovation	Industry

*Ausgrid dollar-matched employee donations to payroll giving charity partners up to a total of \$150,000 in the 2014/15 financial year

Appendices (cont.)

Access to information – Government Information (Public Access) Act

Review of proactive release program – Clause 7(a)

Under section 7 of the GIPA Act, agencies must review their programs for the release of government information to identify the kinds of information that can be made publicly available. This review must be undertaken at least once every 12 months.

Ausgrid's program for the proactive release of information involves:

- The website which has been redesigned this year to be read more easily from mobile devices and now provides:
 - A landing page with the latest safety message, twitter and Facebook feed, links to the most popular sections of the website and links to online reporting tools
 - 4 categories of information: Safety; Customer Services; Industry; and About Us

- Online reporting tools which are accessible from mobile devices for streetlighting, graffiti, trees near a powerline and pole inspections
- Details on how a customer can read their own meter, interpret meter data and obtain their own data
- Facebook, Twitter and You Tube where Ausgrid continues to provide daily updates and information on:
 - Planned outages and tree trimming activities
 - Blackouts including the reason for the blackout, estimated restoration times and progressive restoration updates
 - Community Involvement
 - Progress of the Capital Works Program
 - Safety alerts and tips
- The contact centre being the first point of call for information requests

- Newsletters and information flyers for customers affected by planned works to inform them of any disruptions, hours of work and the reason Ausgrid are undertaking the works

During the reporting period, this program was reviewed by:

- Updating the website to be more accessible to mobile devices following reports stating that more people are accessing the internet via their mobile devices
- Identifying data sets which should be available to customers under various legislative and other regimes leading to changes to the website which will continue into the next financial year

Number of access applications received

During the reporting period, Ausgrid received a total of 21 formal access applications.

Number of refused applications for Schedule 1 information

During the reporting period, Ausgrid refused a total of 0 formal access applications.

Statistical information about access applications

Table A: Number of applications by type of applicant and outcome*

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/deny whether information is held	Application withdrawn
Media	0	1	0	0	0	0	0	0
Members of Parliament	2	0	0	0	0	0	0	0
Private sector business	4	2	0	2	0	0	0	0
Not for profit organisations or community groups	0	0	0	0	0	0	0	0
Members of the public (application by legal representative)	5	3	0	2	0	0	0	0
Members of the public (other)	0	0	0	0	0	0	0	0

*More than one decision can be made in respect of a particular access application. If so, a recording must be made in relation to each such decision. This also applies to Table B.

Table B: Number of applications by type of application and outcome

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/deny whether information is held	Application withdrawn
Personal information applications*	0	0	0	0	0	0	0	0
Access applications (other than personal information applications)	11	6	0	4	0	0	0	0
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0

*A personal information application is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).

The total number of decisions in Table B should be the same as Table A.

Table C: Invalid applications

Reason for invalidity	Number of applications
Application does not comply with formal requirements (section 41 of the Act)	0
Application is for excluded information of the agency (section 43 of the Act)	0
Application contravenes restraint order (section 110 of the Act)	0
Total number of invalid applications received	0
Invalid applications that subsequently became valid applications	0

Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 of the Act

	Number of times consideration used*
Overriding secrecy laws	0
Cabinet information	0
Executive Council information	0
Contempt	0
Legal professional privilege	0
Excluded information	0
Documents affecting law enforcement and public safety	0
Transport safety	0
Adoption	0
Care and protection of children	0
Ministerial code of conduct	0
Aboriginal and environmental heritage	0

*More than one public interest consideration may apply in relation to a particular access application and, if so, each such consideration is to be recorded (but only once per application). This also applies in relation to Table E.

Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of the Act

	Number of occasions when application not successful*
Responsible and effective government	0
Law enforcement and security	0
Individual rights, judicial processes and natural justice	0
Business interests of agencies and other persons	3
Environment, culture, economy and general matters	0
Secrecy provisions	0
Exempt documents under interstate Freedom of Information legislation	0

*refers to consideration not to disclose part of an application and are recorded in Table A as “access granted in part”.

Table F: Timeliness

	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	21
Decided after 35 days (by agreement with applicant)	0
Not decided within time (deemed refusal)	0
Total	21

Appendices (cont.)

Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)

	Decision varied	Decision upheld	Total
Internal review	0	0	0
Review by Information Commissioner*	0	0	0
Internal review following recommendation under section 93 of Act	0	0	0
Review by ADT	0	0	0
Total	0	0	0

*The Information Commissioner does not have the authority to vary decisions, but can make recommendation to the original decision-maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made.

Table H: Applications for review under Part 5 of the Act (by type of applicant)

	Number of applications for review
Applications by access applicants	0
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	0

Greenhouse gas emissions

	Greenhouse gas emissions (see Note 1)					
	Use	Units	Scope 1	Scope 2	Total	%Total
Direct energy use						
Transport vehicle and stationary equipment fuels and oils						
Unleaded petrol	1,119	kilolitres	2,561		2,561	0.3%
Ethanol	68.968	kilolitres	5		5	0.0%
Diesel	4,555	kilolitres	12,289		12,289	1.3%
LPG	37.26	kilolitres	57		57	0.0%
Petroleum based oils	264.07	kilolitres	286		286	0.0%
Energy						
Electricity consumed	25,183,564	megawatt hours		21,658	21,658	2.2%
Natural gas consumed	8,214	gigajoules	421		421	0.0%
Deemed synthetic gas emissions						
Sulphur hexafluoride (SF6) (see Note 2)	50.65	tonnes	10,774		10,774	1.1%
Indirect energy use						
Network losses (see Note 3)	1,070,379,651	megawatt hours		920,526	920,526	95.0%
Total energy use			26,393	942,184	968,577	100%
Net energy	Total	Units				
Net energy consumed	4,179,168	gigajoules				

Notes:

- 1 Emissions from direct energy use and synthetic gases measured in tonnes of carbon dioxide equivalent (tCO₂e). Emissions based upon conversion factors from the Clean Energy Regulator's Emissions and Energy Reporting System (2015).
- 2 Used for arc suppression in network equipment, SF₆ has a high global warming potential.
- 3 The transmitting of electricity over long distances, from Ausgrid's substations to its customers, generates heat and therefore uses energy, known as network losses. Energy losses from the delivery of electricity to customers are an inherent part of electricity distribution.

Guaranteed customer service standards

During 2014/15, 372 customers who were not provided with the level of supply required by the Customer Service Standards received a total of \$29,760.00 in compensation.

Compensation can be paid on a case-by-case basis on other occasions when there may be interruptions to the electricity supply. This can include damage to a customer's installation or electrical appliances or food spoilage. A total of 4,434 claims were received with \$1,221,808.10 paid for 1,927 eligible claims.

We regularly interrupt our customers' electricity supply so we can work safely on the network. During 2014/15, there were 3,838 planned interruptions. Four business days' notice was required for each of these interruptions, but this did not happen on 28 occasions.

Investment performance

Ausgrid is a net borrower in the marketplace. Ausgrid has interest income of \$0.5 million in the audited Financial Statements which is derived from interest on its bank account being in funds over the reporting period.

Land disposal

There were no properties that were disposed of during 2014/15 by means other than public auction or tender and that had a value of more than \$5 million.

Ausgrid is not aware of any family connection or business association between any party who acquired the properties and any members of Ausgrid who approved the sale or were involved in the sale process.

Application for access to documents concerning details of properties disposed of may be made in accordance with the *Government Information (Public Access) Act 2009* (NSW).

Liability management performance

Information on Ausgrid's weighted average interest rate risk as at 30 June 2015 is detailed in the audited Financial Statements Note 18 page 53.

Information on Ausgrid's finance costs are disclosed in Note 3 of the audited Financial Statements on page 42.

Network prices 2014-15

On 17 June 2015, the Australian Energy Regulator advised that Ausgrid's pricing proposal for 2015/16 is compliant with Chapter 6 of the National Electricity Rules, the AER Final Determination and all forecasts associated with the proposal were reasonable. The AER approved 2015/16 network prices will apply from 1 July 2015.

Overseas travel

Name	Position	Travel to	Dates	Purpose of Travel
Simon Arnold	Insurance Portfolio Manager	Singapore, London, Bermuda	28 August – 9 September 2014	Meeting with Insurance Underwriters
Rob Bradley	Senior Engineer – Transmission Underground	China and Korea	25-29 August 2014	Factory inspections for NNSW Cable Contract
John Hardwick	Group Executive Network Strategy	Singapore, London, Bermuda	28 August – 9 September 2014	Meeting with Insurance Underwriters
Joe Pizzinga	General Manager – Finance & Compliance	USA	2 September – 26 October 2014	Study Trip
Patrick Strange	Director	New Zealand to Sydney and return	27-28 July 2014 25-26 August 2014 30 September – 1 October 2014 28-29 October 2014 26-27 November 2014 5-6 February 2015 24-25 February 2015 25-26 March 2015 28-29 April 2015 26-27 May 2015 18-19 June 2015	Attend board and committee meetings. Cost of travel shared by Ausgrid, Endeavour Energy and Essential Energy.

Appendices (cont.)

Public Interest Disclosures Act

In compliance with the *Public Interest Disclosures Act 1994 NSW (PID ACT)*, Ausgrid has a policy for receiving, assessing and dealing with public interest disclosures. Staff can obtain information on how to report wrong doing in accordance with the PID Act by reading Ausgrid's Code of Conduct or Ausgrid's Internal Reporting Policy. The policy provides detailed information for staff to report suspected corrupt conduct, serious maladministration, serious and substantial waste and government information contravention and is available on Ausgrid's intranet.

In 2014/15, Ausgrid received 30 public interest disclosures from 30 public officials, all of them primarily related to alleged corrupt conduct. Of these, 29 public interest disclosures were finalised in 2014/15.

Summary of legislative changes and judicial decisions

Commonwealth legislation

Clean Energy Legislation (Carbon Tax Repeal) Act 2014 (Cth)

This Act, which came into effect in stages between 1 and 18 July 2014, repealed legislation establishing the previous Commonwealth Government's carbon pricing mechanism, including the *Clean Energy Act 2011 (Cth)*. Following the repeal, the 2013/14 financial year was the last financial year in which Ausgrid may have been required to pay a price for carbon emissions under the *Clean Energy Act 2011 (Cth)*.

Consequential amendments were made to the *National Greenhouse and Energy Reporting Act 2007 (Cth)* (NGER Act) relating to reporting emissions and registering for carbon units under the carbon pricing mechanism. As a result, from the 2014/15 financial year onwards, Ausgrid is not required to report its emissions number to the Clean Energy Regulator, or to register for emissions units for each tonne of carbon dioxide gas or equivalent it emits. However, any other reporting obligations under the NGER Act continue to apply.

Related amendments were also made to the *Competition and Consumer Act 2010 (Cth)* to grant the ACCC powers to monitor prices to assess the general effect of the carbon tax repeal on prices charged for certain goods (during a transitional period) and to prosecute businesses that make false and misleading representations about the effect of the carbon repeal on prices.

Environment Protection and Biodiversity Conservation Amendment (Cost Recovery) Act 2014 (Cth)

The *Environment Protection and Biodiversity Conservation Amendment (Cost Recovery) Act 2014 (Cth)* introduced a cost recovery regime empowering the Commonwealth Department of Environment to recover the cost of environmental impact assessments from 1 July 2014.

Carbon Farming Initiative Amendment Act 2014 (Cth)

The *Carbon Farming Initiative Amendment Act 2014 (Cth)* (CFI Amendment Act) amended the *Carbon Credits (Carbon Farming Initiative) Act 2011 (Cth)* to establish the Emissions Reduction Fund. The CFI Amendment Act granted the Clean Energy Regulator authority to purchase emissions reductions on behalf of the Commonwealth through auctions or other purchasing processes.

Any projects which existed under the previous Carbon Farming Initiative automatically became projects under the Emissions Reduction Fund and were listed on the Emissions Reduction Fund Register from 13 December 2014.

Further changes include:

- all existing emissions avoidance projects (other than savannah burning) were automatically given a second crediting period of seven years from 13 December 2014; and
- audits are not required for reporting under the Emissions Reduction Fund, however the Clean Energy Regulator will conduct audits using a risk-based approach.

New South Wales legislation

Electricity Network Assets (Authorised Transactions) Act 2015 (NSW)

This Act amended various Acts regulating Ausgrid's operations to authorise and facilitate the lease of up to a 49% interest in the State's electricity network assets to the private sector for an initial term of up to 99 years. The Act prevents transfer of any assets, rights or liabilities of Essential Energy.

The Act places a number of restrictions on the transaction, including that a public sector agency must not transfer any interest in a network infrastructure asset lease or in the lessee of such a lease and that authorised network operators will be required to provide an electricity price guarantee.

The Act grants the Treasurer power to transfer existing employees of the relevant State owned corporations to other public sector agencies or to private sector entities, with or without their consent. It also provides for an 'employment guarantee' for five years ending on 30 June 2020, during which a lessor of a transacted distribution systems is restricted in the extent to which it can vary the number of employees of the relevant entity, the terms of an employee's employment, and enterprise bargaining agreements. In both situations, the Act provides for the continuity of employment entitlements of the relevant employees.

Electricity Retained Interest Corporations 2015 (NSW)

This Act creates corporations to manage the electricity network assets retained by the State of NSW following the long term lease of electricity network assets to private operators as facilitated by the proposed *Electricity Network Assets (Authorised Transactions) Act 2015 (NSW)* above. The Act places obligations on these corporations to properly manage the retained assets.

Electricity Supply Act 1995 (NSW)

This Act was amended by the *Electricity Supply Amendment (Bush Fire Hazard Reduction) Act 2014* (NSW), which came into effect on 11 November 2014. The amendments give network operators power to direct owners of private land in bush fire prone areas to conduct work to mitigate bush fire risks. Network operators have the power to enter the land and perform the works themselves if the owner does not comply. The *Electricity Supply (Safety and Network Management) Amendment (Directions for Bush Fire Risk Mitigation Work) Regulation 2014* (NSW) makes further provision for the contents of a notice issued under the new provisions.

Electricity Supply (Safety and Network Management) Regulation 2014 (NSW)

This regulation came into effect on 1 September 2014, replacing the *Electricity Supply (Safety and Network Management) Regulation 2008* (NSW). Like the 2008 Regulation, this regulation creates an obligation on network operators to put in place by 1 March 2015, comply with, and measure their performance against, a 'Safety Management System' (SMS). The 2014 Regulation is less prescriptive than its predecessor and includes an overarching obligation 'to take all reasonable steps to ensure' the safety of the network and includes references to standards and codes.

Electricity Supply (General) Regulation 2014 (NSW)

This Regulation commenced on 1 September 2014 and remakes, with certain omissions, the *Electricity Supply (General) Regulation 2001* (NSW). The Regulation contains provisions relating to consumer consultative groups, the energy ombudsman scheme, distributor service standards, the solar bonus and energy savings schemes and other matters.

Electricity Supply (Consumer Safety) Regulation 2006 (NSW)

The repeal of this legislation was postponed from 1 September 2014 to 1 September 2015.

Home Building Act 1989 (NSW)

This Act was amended by the *Home Building Amendment Act 2014* (NSW), which came into effect in stages by 1 March 2015. The amendments were outlined in the 2013/14 annual report. The *Home Building Regulation 2004* (NSW) remakes the *Home Building Regulation 2014* (NSW), and makes additions to support the amendments referenced above.

Work Health and Safety Amendment (Miscellaneous) Regulations 2015 (NSW)

This Regulation, which commenced on 13 February 2015, amends the *Work Health and Safety Regulation 2011* (NSW) to, among other things, exempt work carried out by or on behalf of an 'electricity supply authority' (which includes Ausgrid) on electrical equipment owned by the authority to generate, transform, transmit or supply electricity, and to exempt contestable services authorised by an electricity supply authority, from the application of Division 4 of Part 4.7 of the *Work Health and Safety Regulation 2011* (NSW)

Environmental Planning and Assessment Amendment Act 2014 (NSW)

The *Environmental Planning and Assessment Amendment Act 2014* (NSW) introduced a new tiered penalty framework for offences against the *Environmental Planning and Assessment Act 1979* (NSW), which is to commence on an as yet unannounced date fixed by proclamation. The maximum penalty for Tier 1 offences will be \$5 million, increased from \$1.1 million. Other changes will include enhanced enforcement powers, and a new offence of providing false or misleading information in connection with planning matters.

Protection of the Environment Legislation Amendment Act 2014 (NSW)

The *Protection of the Environment Legislation Amendment Act 2014* (NSW) came into force on 1 January 2015, amending the *Contaminated Land Management Act 1997* (NSW) to increase penalties for certain offences, including penalties of up to \$1 million, increased from maximums of \$165,000, such as a failure to adhere to management orders, failing to report contamination, or providing false or misleading information.

National Electricity Rules

The National Electricity Rules apply in NSW under the *National Electricity (New South Wales) Act 1997* (NSW). The AEMC has made the following rule changes in the last financial year:

- (a) *Connecting embedded generators under Chapter 5A* – effective 1 March 2015, the key components of this rule change are:
 - (i) proponents of non-registered embedded generators for whom a basic or standard connection offer is not available may elect to use the Chapter 5 embedded generator connection framework instead of the Chapter 5A arrangements; and
 - (ii) distributors must publish information to assist customers and maintain a register of Chapter 5 and Chapter 5A embedded generator projects on their websites.
- (b) *Customer access to information about their energy consumption* – effective 1 December 2014 (1 March 2016 for some provisions), this rule allows customers, or parties authorised by customers, to request access to their electricity consumption data from their distributor. This information must be provided free of charge and subject to prescribed formats and timeframes. A corresponding change was made to the National Energy Retail Rules.
- (c) *Distribution Network Pricing Arrangements* – effective 1 December 2014, this rule sets out a new pricing objective, new pricing principles and a new process for setting network prices, with the first tariffs based on the new principles to apply from 1 July 2017. Under transitional arrangements, NSW distributors are required to submit 'Tariff Structure Statements' (TSSs) for approval by the AER by 27 November 2015. The AER will make a decision in relation to these TSSs by 31 October 2016, with tariffs based on the new principles to apply from 1 July 2017.

Appendices (cont.)

(d) *Improving demand side participation information provided to AEMO by registered participants* – effective 26 March 2015, this rule allows AEMO to set guidelines requiring distributors to provide it with Demand Side Participation Information (DSP Information), which AEMO will use in making its short and long term load forecasts. AEMO must have regard to registered participants' costs of compliance when making guidelines and must publish details annually on the extent to which DSP Information it has obtained has informed the development or use of its electricity load forecasts.

Significant judicial decisions, new codes of practice and compliance exemptions

Distributor Licence Conditions

The Minister for Energy reviewed and varied conditions relating to reliability and performance in distributor licenses pursuant to the *Electricity Supply Act 1995* (NSW), effective from 1 July 2014. The new conditions, among other things, specify minimum reliability performance for individual feeders and minimum average reliability performance for distributors across their network, by feeder type. Distributors must compensate customers that receive poor supply reliability from the distributor. Distributors must also make

quarterly reports to the Minister relating to individual feeder standards, network overall reliability standards and customer service standards.

The Federal Court handed down its decision in *SPI Electricity Pty Ltd v Australian Energy Regulator* [2014] FCA 1012 on 17 September 2014. SPI Electricity Pty Ltd (SPI), a distributor in Victoria, applied for judicial review of a decision by the AER in respect of SPI's budget for the 2012-2015 period for the installation of advanced meters in residential premises and small business premises in Victoria. SPI alleged that the AER had failed to take into account costs that would be incurred by a reasonable business in SPI's circumstances to switch from the current technology employed to the advanced meters.

The Court found that the AER's Amended Budget Determination was not affected by reviewable error. The AER had conceived and taken into account hypothetical steps that might or could have been undertaken by a hypothetical reasonable business to fund relevant hypothetical expenditure. The Court noted that the exercise which the AER was required to perform was essentially hypothetical. Accordingly, the Court found that the AER's amended budget

determination was not affected by reviewable error and dismissed the application

Bob's Farm incident

Occupational health and safety prosecution proceedings were initiated by the WorkCover Authority of NSW against Ausgrid following an incident on 29 October 2010 in which an Ausgrid employee was injured. Ausgrid entered a plea of guilty in the District Court and the sentencing hearing took place on 28 July 2014. The Court handed down its judgment on 7 August 2014 and fined Ausgrid \$100,000.

Kogarah incident

Occupational health and safety prosecution proceedings were initiated by the WorkCover Authority of NSW against Ausgrid following an incident on 5 June 2010 at a property on the Princes Highway at Kogarah. At the time, Ausgrid's principal contractor Diona Pty Ltd was undertaking trench excavation works on the project. Diona's sub-contractor Fer-Aim Pty Ltd was excavating outside the property when the brick building façade subsided. Ausgrid entered a plea of guilty to an amended charge in the District Court and the sentencing hearing took place on 24 June 2015. The Court handed down its judgment on 26 June 2015 and fined Ausgrid \$37,500.

Glossary

Electricity

kW kilowatt	One kW = 1000 watts
kWh kilowatt hour	The standard unit of energy which represents the consumption of electrical energy at the rate of one kilowatt for one hour
MW megawatt	One MW = 1000 kW or one million watts
MWh megawatt hour	One MWh = 1000 kilowatt hours
GWh gigawatt hour	One GWh = 1000 megawatt hours or one million kilowatt hours
STS	Sub transmission substation (Sub transmission system consists of 33kV, 66kV and 132kV assets)
STSS	Sub transmission switching station
HV high voltage	Consists of 5 kV, 11 kV and 22 kV distribution assets
LV low voltage	Consists of 240V and 415V distribution assets

Other

AASB	Australian Accounting Standards Board
AER	Australian Energy Regulator
API	Australian Power Institute
ARSBR	Annual Reports (Statutory Bodies) Regulation 2005
CBD	Central Business District
CEATI	Centre for Energy Advancement through Technological Innovation
CEO	Chief Executive Officer
CIGRE	International Council on Large Electric Systems
CO₂-e	Carbon dioxide equivalent
COTA	Council of the Ageing
DBYD	Dial Before You Dig
DPI	Department of Primary Industries
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EEO	Equal employment opportunity
ELG	Executive Leadership Group
EPA	Environmental Protection Act
esaa	Energy Supply Association of Australia
FTE	Full-time equivalent
GIS	Geographical Information System
GREP	Government Resource Efficiency Policy
GRI	Global Reporting Initiative
GST	Goods and services tax

Other (cont.)

HPIFR	High Potential Incident Frequency Rate
ICAM	Incident Causal Analysis Method
IPART	Independent Pricing and Regulatory Tribunal
ISMS	Information Security Management System
LBG	London Benchmarking Group
LED	Light emitting diode – an energy efficient method of lighting
LFI	Line fault indicator
LTIFR	Lost Time Injury Frequency Rate
NAIDOC	National Aborigines and Islanders Day Observance Committee
nemSTAR	Ausgrid's interval meter management and meter contracts management system. The core function of nemSTAR is to load, create, validate and distribute versioned interval meter data to third parties and market participants.
Network	The network is the system of assets which enables electricity to be transported to customers. Ausgrid's network includes both transmission (high voltage) and distribution (lower voltage) assets
NECF	National Energy Customer Framework
NPAT	Net Profit After Tax
NSW	New South Wales, the Australian state
OH&S	Occupational Health and Safety
PCB	Polychlorinated biphenyls
PIAC	Public Interest Advocacy Centre
POEO	NSW Protection of the Environment Operations Act 1997
Recloser	A switching device that rapidly recloses a power switch after it has been opened by an overload. In reclosing the power feed to the line, the device tests the circuit to determine if the problem is still there. If not, power is not unnecessarily interrupted.
REF	Review of Environmental Factors
Remote control switches	A switching device, on a power line, that can be opened and closed via remote control from the control room.
Retail	Refers to the process of selling electricity to the consumer. The Retail business purchases electricity in the National Electricity Market and sells it to consumers
SAIDI	Normalised System Average Interruption Duration Index – the average time that a customer is without electricity
SAIFI	Normalised System Average Interruption Frequency Index – the average number of interruptions for a customer
SCI	Statement of corporate intent
TAFE	Technical and Further Education Commission, NSW based vocational education and training provider
TRIFR	Total Recordable Injury Frequency Rate
WRAPP	Waste Reporting and Purchasing Policy
WH&S	Workplace Health and Safety

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