

Annual Report

2012/13



Letter to shareholders



28 October 2013

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The Hon. Mike Baird, MP
Treasurer
Level 36, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

The Hon. Andrew Constance, MP
Minister for Finance and Services
Level 34, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Dear Ministers,

Annual Report for Ausgrid for the year ended 30 June 2013

We are pleased to submit for presentation to Parliament Ausgrid's Annual Report, covering performance, operations and financial results for the year ended 30 June 2013.

The report has been prepared in accordance with section 24A of the *State Owned Corporations Act 1989* and the *Annual Reports (Statutory Bodies) Act 1984*.

Copies of the report are being sent to the Premier of NSW and the Auditor General, as well as a copy being made available on the Ausgrid website for customers and other interest groups.

Yours sincerely

A handwritten signature in black ink, appearing to read "Roger Massy-Greene", written over a light grey rectangular background.

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

Contents



About this report	4
About Ausgrid	5
The year in review	6
Strategic achievements, challenges and targets	8
Performance:	10
Safety	10
Deliver the network plan	12
Improve customer value	13
Leverage technology	13
Manage business risk	14
Deliver performance through people	15
Network	16
People	18
Community	20
Environment	22
Governance	24
Finance report	28
Financial statements	29
Appendices	74
Glossary	89
Index	91

About this report



Ausgrid's 2012/13 Annual Report documents the operating, financial and sustainability performance for the period 1 July 2012 to 30 June 2013.

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 representing the material issues of Ausgrid's key interest groups:

1. Performance highlights – a written account of Ausgrid's operations and performance including network, people, community, environment, finance and governance.
2. Consolidated financial report – the company's financial statements for the 2012/13 financial year.
3. Appendices – additional information the company is legally obliged to disclose.

A glossary and index are included on pages 89 and 91.

Assurance

The consolidated financial report has been audited by the Audit Office of NSW and the Independent Auditor's report 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.

About Ausgrid

Ausgrid's distribution network covers 22,275 square kilometres from Waterfall in Sydney's south to Auburn in western Sydney and north to the upper Hunter Valley.

Ausgrid supplies electricity to more than 1.64 million customers in Sydney, the Central Coast and the Hunter Region in New South Wales (NSW).

Its electricity network powers about half of the electricity customers in NSW including residential and large and small business customers, as well as major industry including mining, shipping, tourism, manufacturing and agriculture.

Purpose and vision

Ausgrid's purpose is to be of service to its communities by efficiently distributing electricity to its customers in a way that is safe, reliable and sustainable.

Its values define the standard of ethical behaviour expected by the community. These following values form the basis for everything done at Ausgrid:

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

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

The organisation publishes a Statement of Corporate Intent, outlining its strategies, risks and operational and commercial objectives.

A performance dashboard, "Our Scorecard 2012/13," is published and is available on the Ausgrid website, www.ausgrid.com.au. Details of Ausgrid's performance are set out in this report.

Ausgrid has a strong focus on improving its safety performance, maintaining the reliability of its network and containing electricity cost increase for its customers.

To ease pressure on prices without compromising service reliability, Ausgrid is committed to the 2012/13 NSW State Government budget decision to cap network businesses' dividends to the forecasted dividend rate.

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*.

Ausgrid's main activities are the safe management of its electricity network.

The business is 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 its internal codes and policies and a common control framework. This control framework 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 continue to operate as separate legal entities but are managed by a joint Board of Directors and common Chief Executive Officer (CEO).

Scale

In 2012/13, Ausgrid's network supplied more than 26,316 GWh of electricity to more than 1.64 million network customers. It had 5,713 full-time equivalent employees and net profit after tax of \$706.2 million. Total company assets were \$16.2 billion with shareholders equity of \$4.2 billion.

Ausgrid's distribution network includes:

- a subtransmission 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". Ausgrid's network customers are therefore customers who 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 its operations or could affect its ability to provide services to its customers.

Ausgrid is committed to engaging with stakeholders on key issues to help achieve best outcomes. A list of stakeholders and how Ausgrid engages with them on these issues is available on Ausgrid's website, www.ausgrid.com.au

The year in review

Ausgrid strives to be a leader in distributing and providing energy services. The strategies it pursues to achieve this vision focus on the safety of its people and the public and providing a reliable, efficient network for its 1.6 million customers.

Business changes

The New South Wales Government introduced a program of reform to its state-owned electricity networks on 1 July 2012, including a shared group management model.

Ausgrid, Endeavour Energy and Essential Energy continue to operate as separate legal entities although they are managed by a joint Board of Directors and a common Chief Executive Officer.

A key objective of the NSW Government's reform program for its electricity distribution businesses is to deliver more than \$400 million in cost and efficiency savings over four years to assist electricity consumers, particularly those receiving Low Income Household and Family Energy rebates. These savings at Ausgrid are being delivered through more streamlined corporate and support services, reducing duplication, more efficient capital spending and strategic procurement.

The industry reforms also aim to deliver a more efficient, lower cost electricity distribution service to customers – one that is financially sustainable, minimises waste and maintains the reliability of the network in a way that is safe for its employees and the public.

Safety

Ausgrid's workplace safety performance significantly improved during 2012/13. Results for both Lost Time Injury Frequency Rate (LTIFR) and the Total Recordable Injury Frequency Rate (TRIFR) were stronger than the previous year.

Targets were also met for lead indicators, including 12,129 employee safety interactions and 372 near misses reported, a positive trend compared to the 2011/12 results. Lost time injuries reduced from 54 in 2011/12 to 29 in the 2012/13 financial year.

All employees are encouraged to take greater personal responsibility for their own safety and those around them. Ausgrid has committed to ensuring that its work environments are free of hazards and its people are aware of safety mitigation relating to the risks inherent in operating an electricity network.

This focus will continue over the year ahead as Ausgrid takes further steps to improve its workplace safety culture with additional employee education on the management of fatal risks and a focus on contractor safety.

A review was undertaken of Ausgrid's Be Safe Management System this year to examine existing governance, responsibilities and risk management. The review's outcomes were also shared with local Workplace Health and Safety Committees.

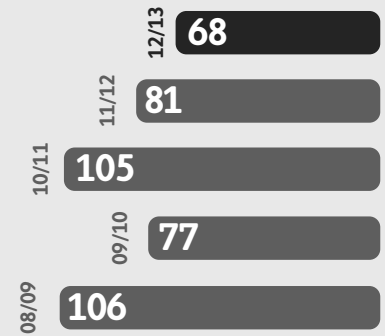
Ausgrid's commitment to safety includes keeping the public safe near its electricity network. This year there was one accident where a member of the public was injured by coming into contact with the network. An electrician, who was not an Accredited Service Provider, received flash burns while attempting to connect a house to the network while the service was live.

Controlling network prices

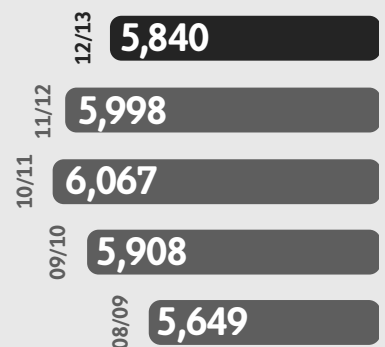
Ausgrid is committed to keeping electricity prices affordable for customers while delivering a safe, reliable and sustainable network for the community.

Electricity prices in NSW have risen in recent years, largely the result of a significant investment in the network, the introduction of the carbon tax, solar bonus rebate and rising retail costs. Customers have responded to these price increases by using less electricity. In conjunction with an increase in rooftop solar panels and a high Australian dollar, energy consumption across the State has fallen.

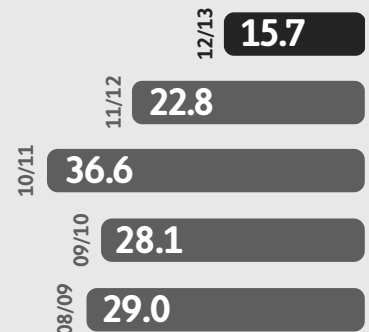
Average customer minutes without supply



Employees (headcount)



Total Recordable Injury Frequency Rate (TRIFR)



Ausgrid has actively reduced its capital expenditure, controlled its operating costs and worked towards improving efficiency across all its operations over the past year.

It is expected that by continuing to deliver these efficiencies in future years, Ausgrid will meet its objective of keeping average network distribution price increases close to the Consumer Price Index (CPI) for the next six years.

In line with this target, the network component of electricity bills increased by 2.5 percent on average for Ausgrid’s customers from 1 July 2013.

Financial performance and efficiency improvements

Ausgrid’s financial performance exceeded most targets, contributing to its continued sustainability and importantly future lower customer prices. This was a result of prudent capital expenditure management and ongoing savings in operating expenditure. The savings in operating costs more than offset the impact of lower than forecast energy consumption and revenue.

Ausgrid reduced its expenditure to \$680.6 million this year, \$41.6 million less than last year. Highlights included a significant reduction in employee overtime, lower labour costs resulting from productivity initiatives and management of discretionary expenditure (i.e. travel, consultancies and general contract works).

This year Ausgrid’s Net Profit After Tax (NPAT) was \$706.2 million and Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was \$2,092 million (including year end adjustments). A lower than budgeted operating revenue of \$5.1 million for the year was due to lower than expected energy consumption of 1,727GWh, primarily in the large customer segment which was 1,889 GWh below budgeted expectations.

Capital expenditure was \$349.8 million lower than budget of about \$1.7 billion. The lower than budgeted capital expenditure was partly the result of reductions in energy demand and growth over the past few years, which resulted in the deferral of some planned infrastructure upgrades.

Ausgrid achieved a 23.2 percent return on equity, which was lower than the Statement of Corporate Intent target of 31.3 percent. The lower return on equity result was due to a \$2.9 billion valuation increase of its system assets on 30 June 2013.

Network renewal and replacement

The capital works program delivered seven new major zone substations, installed more than 598 kilometres of high and low-voltage cables and commissioned 438 distribution substations. More than 399,976 planned maintenance tasks and checks were also undertaken across the network.

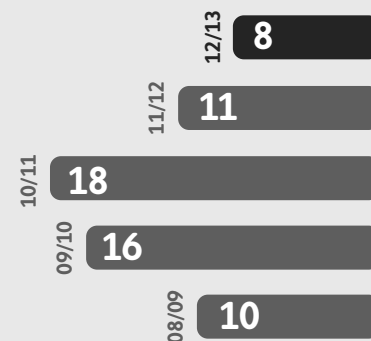
Reliability

Ausgrid’s network reliability results improved significantly this year, according to the normalised System Average Interruption Duration Index (SAIDI). It had an average 68.24 customer minutes without supply, compared to 80.88 minutes in 2011/12. The average number of interruptions, the normalised System Average Interruption Frequency Index (SAIFI) was 0.73 in 2012/13, compared to 0.88 in the previous year. These are Ausgrid’s best reliability results to date. The improvement in part is the result of four years of network investment to replace ageing electricity infrastructure, coupled with benign weather over the past year.

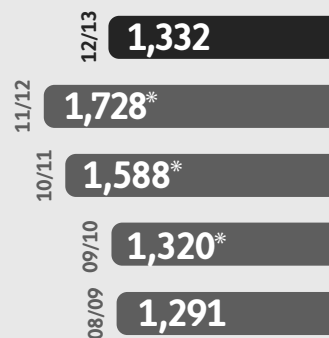
Thanks to staff

The first year of the NSW Government Network Reform Program has seen the organisation restructured, a new leadership team in place and reviews conducted in all areas of the organisation. Ausgrid thanks all its people for their efforts to help maintain a safe and reliable network and their ongoing support during a year of challenging industry reform.

Reportable environmental pollution incidents

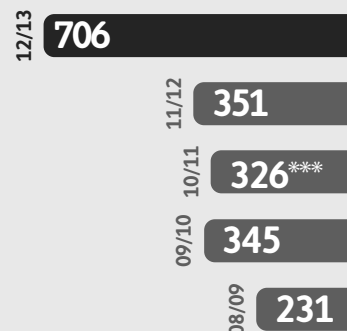


Capital expenditure (\$ millions)



* Historical figures differ from prior year Annual Reports due to the inclusion of borrowing costs.

Net profit after tax (\$ millions)



*** This excludes the sale of retail business for \$1,247.9 million

Strategic achievements, challenges and targets

Ausgrid's Scorecard outlines the measures and targets it uses to monitor its performance throughout the year in five key areas: Safety, Customer and Community, Financial, Business Process and Culture.



2012/13 Objectives

- Lost Time Injury Frequency Rate (LTIFR) ≤ 3.13
- ≤ 72 reportable incidents – Serious Electricity Network Incidents (SENI) controllable
- Total Recordable Injury Frequency Rate (TRIFR) ≤ 16.3

Performance in 2012/13

- Lost Time Injury Frequency Rate (LTIFR) was 2.5
- There were 57 reportable incidents – SENI controllable
- Total Recordable Injury Frequency Rate (TRIFR) was 15.7

Challenges

- Continue improvements in safety performance during a period of change
- Improve the safety culture and behaviour
- Keep the public safe from the dangers of electricity infrastructure

2013/14 Objectives

- Lost Time Injury Frequency Rate (LTIFR) ≤ 2.2
- ≤ 54 reportable incidents – SENI controllable
- Total Recordable Injury Frequency Rate (TRIFR) ≤ 13



2012/13 Objectives

- Establish target for customer satisfaction
- ≤ 30 controllable reportable environmental incidents
- ≤ 59 reportable incidents – SENI uncontrolled
- ≤ 86.7 unplanned average customer minutes without supply (SAIDI) (network reliability)

Performance in 2012/13

- Customer satisfaction was 80%
- There were 8 reportable environmental pollution incidents
- There were 149 reportable incidents – SENI uncontrolled
- There were 68.24 unplanned average customer minutes without supply (SAIDI) (network reliability)

Challenges

- Implement the National Electricity Customer Framework (NECF)
- Continue delivering the NSW Government's industry reform program
- Contain average network distribution price increases close to CPI for customers by delivering efficiencies
- Maintain the reliability and sustainability of the network by adopting best practices

2013/14 Objectives

- $\geq 75\%$ customer satisfaction
- ≤ 7 controllable reportable environmental incidents
- ≤ 84.6 unplanned SAIDI minutes (network reliability)



Financial

2012/13 Objectives

- ≥ \$620.9 million Net Profit After Tax
- ≥ \$1,978.4 million EBITDA – including capital contributions
- ≤ \$1,681.7 million capital expenditure budget
- ≤ \$723.1 million operating expenditure budget
- ≤ \$64.5 million overtime expenditure – planned

Performance in 2012/13

- Net Profit After Tax was \$706.2 million
- EBITDA was \$2,092 million (including year end adjustments)
- Capital expenditure was \$1,332 million
- Operating expenditure was \$680.6 million
- Planned overtime expenditure was \$41.5 million

Challenges

- Continue to reduce expenses and improve productivity to fund NSW Government rebates for families and low-income customers
- Balance the use of overtime with network requirements and community expectations
- Prepare a sound regulatory proposal
- Streamline corporate and support services

2013/14 Objectives

- ≥ \$566.4 million Net Profit After Tax
- ≤ \$760.8 million* operating expenditure budget
- ≤ \$42.6 million overtime expenditure
- Deliver a robust AER determination submission

*This includes \$63.4m external, recoverable and contestable expenditure which was recognised in costs of sales in 2012/13.



Business process

2012/13 Objectives

- ≥ 95% of maintenance tasks complete
- Zero audit recommendations outstanding ≥ 90 days
- Zero risk treatment plans outstanding ≥ 90 days
- ≥ 90% of the capital works plan delivered

Performance in 2012/13

- 96.7% of maintenance tasks completed
- Zero audit recommendations outstanding ≥ 90 days
- 5 (out of 130) risk treatment plans outstanding ≥ 90 days
- Note: the percentage of capital works plan delivered cannot be accurately recorded and has not been reported

Challenges

- Strategically rationalise the capital works budgets
- Continue to improve governance and risk processes and reporting
- Streamline sourcing processes
- Share better practices

2013/14 Objectives

- ≥ 95% of asset management plan complete
- Zero audit recommendations outstanding ≥ 90 days
- Zero risk treatment plans outstanding ≥ 90 days
- Establishment of an integrated policies and procedures framework



Culture

2012/13 Objectives

- ≤ 3.52% employee absenteeism
- ≤ 791 employees with more than 1.5 gross pay to base pay ratio (GBR)

Performance in 2012/13

- Employee absenteeism was 4.66%
- There were 381 employees with more than 1.5 gross to base ratio (GBR) overtime payments

Challenges

- Further develop leadership competencies
- Development and delivery of an improved Ethics Program and Fraud Corruption Controls Plan
- Match the workforce to the changing business structure

2013/14 Objectives

- ≤ 7.4 absenteeism days per employee
- ≤ 250 employees with more than 1.5 gross pay to base pay ratio (GBR)

Performance

Ausgrid improved its safety performance, maintained solid network reliability and made progress towards containing future electricity cost increases. Throughout the year, a key driver has been to provide better value for customers by reducing operational costs and improving efficiency in all areas.

Safety

Safety performance

Safety remains the highest priority for Ausgrid, and the organisation actively encourages safety as a personal responsibility for all its employees.

Ausgrid has continued to focus on improving safety and working towards its ultimate target of zero injuries.

During 2012/13, Ausgrid's overall safety performance improved. However, it requires an ongoing focus and leadership to achieve a workplace free of injury. The Lost Time Injury Frequency Rate (LTIFR) was 2.5 compared to 3.8 in 2011/12, and the Total Recordable Injury Frequency Rate (TRIFR) was 15.7 compared to 22.8 the previous year.

Lead indicators of near miss and hazard alert reporting have all shown positive trends (with 372 near misses and 1,363 hazard alerts reported). First aid plans, risk registers, and traffic management plans were also reviewed for all depots and buildings.

There were two prosecutions under the *Occupational Health and Safety Act 2000* during 2012/13 for two safety incidents that occurred in 2010. Ausgrid's ongoing safety performance improvement, along with the safety initiatives outlined in this section will continue the focus on preventing similar incidents from happening in the future.

Safety management

Ausgrid commenced a review to further improve its health and safety management system, called Be Safe. A new ownership and consultation model was implemented to better integrate with operational areas, and all system procedures and hazard guidelines are being reviewed by Ausgrid-wide working groups. All 2012/13 improvement targets were met. Improvement of Ausgrid's safety reporting system also occurred during the year to ensure one single, consistent source of information.

Ausgrid is a workers' compensation self-insurer. This allows the organisation to provide greater support and rehabilitation for injured employees, as well as prompt processing and management of workers' compensation matters. During 2012/13, Ausgrid passed a WorkCover audit of its safety system which allowed the organisation to continue its self-insurer status.

A safety industry investigation methodology, known as Incident Cause Analysis Method (ICAM), was introduced to investigate the most serious employee incidents, with their root causes used to identify safety improvements. This methodology will be used for future investigations.

There was continued focus on Ausgrid's management of asbestos-related risks. A central Asbestos Management Unit was created, training offered for field-based workers, and work commenced on a review and upgrade of the existing asbestos register. Employees can now easily identify work locations where asbestos may be present, capture details of what may be found and record its subsequent removal.

Safe Work Method Statements are an important way that Ausgrid manages WH&S risks, and set out the agreed way to safely undertake significant risk tasks. A review of Ausgrid's 530 Safe Work Method Statements commenced this year to further improve risk assessments.

15.7

TOTAL RECORDABLE INJURY
FREQUENCY RATE (TRIFR)

2.5

LOST TIME INJURY FREQUENCY
RATE (LTIFR)

372

NEAR MISSES REPORTED

1,363

HAZARD ALERTS REPORTED

1,485

RANDOM TESTS FOR DRUG
& ALCOHOL PERFORMED

12,129

SAFETY INTERACTIONS COMPLETED

Employee health and wellbeing

A variety of health and wellbeing programs continued, including mental health and Beyond Blue seminars, a flu vaccination program, respiratory health monitoring, and employee assistance and chaplaincy services.

A key focus for the year was a targeted program to improve manual handling which has been the most frequent cause of injury for Ausgrid employees. The program included a manual handling mentoring program for all field-based employees and on-site physiotherapy services, as required.

All apprentice applicants who joined Ausgrid had pre-employment functional assessments and all fourth-year apprentices coming to trade had mandatory functional assessments, specific to the physical requirements required of the workgroup they were joining.

Ausgrid’s random drug and alcohol program tested 1,485 people throughout the year with five results above the acceptable threshold for drugs and alcohol.

Public safety

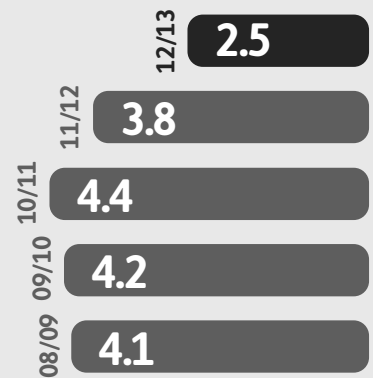
Ensuring public safety near electricity infrastructure is an ongoing challenge for Ausgrid. Its public safety awareness program continues to inform the community about the dangers of electricity, and working around the electricity network. During the year there was one incident involving a member of the public coming into contact with the electricity network.



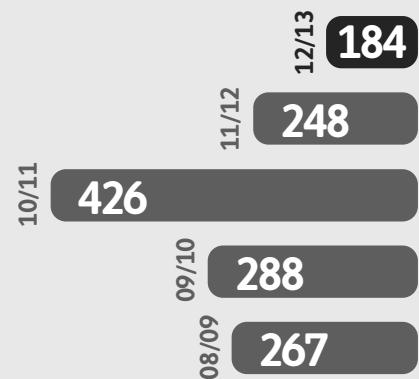
Reducing eye and hand injuries

Eye and hand workplace injuries have increased, so Ausgrid consulted with employees this year about the introduction of new guidelines for mandatory eye protection and carrying or wearing of gloves on work sites.

▼ Lost time injury frequency rate (per million hours worked)



▼ Total recordable incidents



Performance (cont.)

Deliver the network plan

Ausgrid distributes electricity to about half of the electricity customers in New South Wales. As a natural monopoly, its investment and maintenance programs are reviewed every five years by the Australian Energy Regulator (AER) to determine the network prices that can be charged to allow a safe and reliable electricity supply to Ausgrid's customers.

The AER approved capital investment of \$8.5 billion and operating expenditure of \$2.8 billion for the 2009-14 period. This network investment enabled Ausgrid to continue to provide a reliable electricity supply and meet the reliability targets specified in the New South Wales Government's licence conditions by the end of June 2014.

Network investment

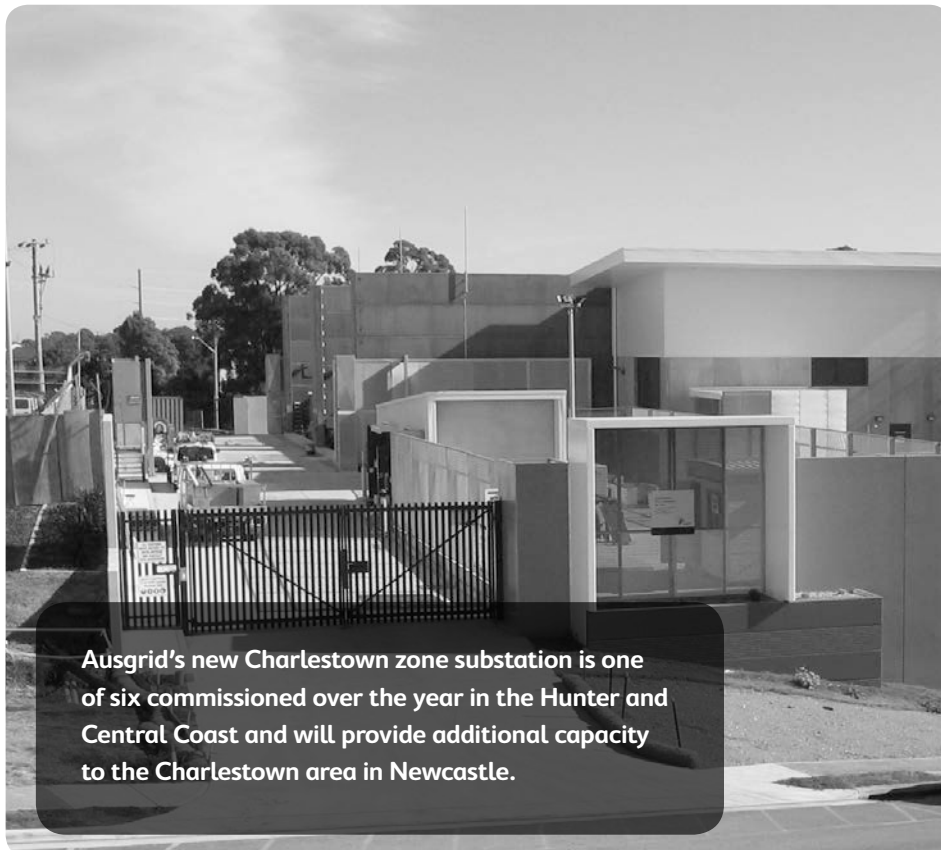
Ausgrid invested \$1.3 billion in the electricity network in 2012/13. This included \$522 million on major substation projects and the installation of more than 598 kilometres of high and low voltage cables. Ausgrid also continued its comprehensive network maintenance program to support the supply of electricity to homes and businesses within its distribution area.

Throughout the year, 13 new zone substations and transmission feeder projects progressed to the construction phase, while an additional 69 projects were already underway on zone and subtransmission substations.

These works included 22 subtransmission feeder projects such as those from Bankstown to Punchbowl, Canterbury to Beaconsfield, Empire Bay to Avoca, Ku-ring-gai to St Ives and at Camperdown, North Sydney, Crows Nest, Engadine, Newcastle, Lake Munmorah, Rose Bay and Belmore Park.

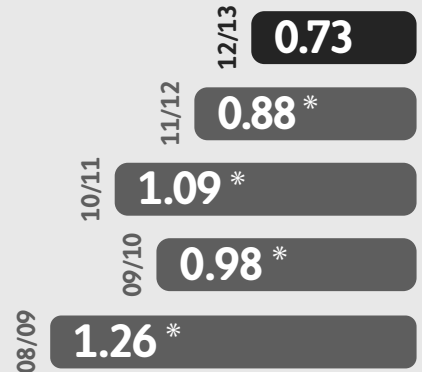
Seven major zone substation projects were commissioned at Empire Bay, Rathmines, Tomaree, Charlestown, Aberdeen, Potts Hill and Lake Munmorah.

The Gwawley Bay substation was converted into a hybrid 132/33kV zone substation and major works were completed at Lindfield zone substation to replace 11kV switchgear and the Tomago subtransmission substation to replace a 33kV busbar.



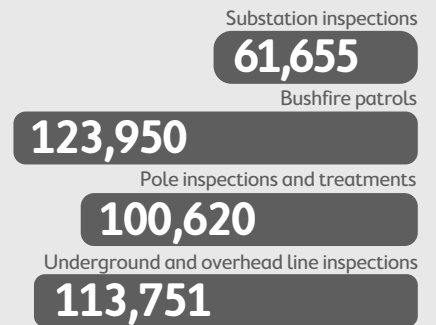
Ausgrid's new Charlestown zone substation is one of six commissioned over the year in the Hunter and Central Coast and will provide additional capacity to the Charlestown area in Newcastle.

System average interruption frequency index (SAIFI)

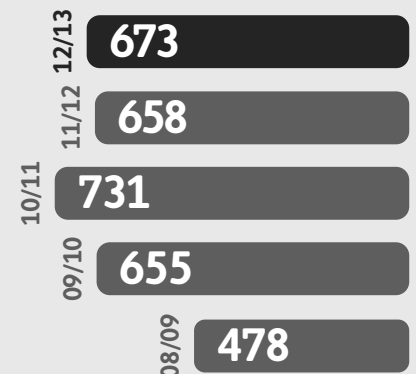


*Historical figures differ from prior year Annual Reports due to a recalculation using a consistent application of the current exclusion rules across all years.

Maintenance tasks undertaken in 2012/13



Completed replacement projects



There were 399,976 planned maintenance tasks and checks undertaken across the network during the year. This work included underground and overhead line inspections, pole inspections and treatments, bushfire patrols and substation inspections (see graph on page 12). More than \$224 million in operational expenditure funded this maintenance work, which was in addition to Ausgrid's capital works program.

In the final year of the approved regulatory period 2009/14 investment plan, Ausgrid plans to spend more than \$1.3 billion on planned capital works during 2013/14.

The AER will make its next determination in early 2014 being the first of two for the subsequent five-year period to 2019. These determinations will approve Ausgrid's capital and operating programs that will underpin its revenue and set the prices it can charge its customers.

Improve customer value

Controlling network prices

Ausgrid is committed to keeping electricity prices affordable for customers while delivering a safe, reliable and sustainable network for the community. Therefore in 2012/13, Ausgrid continued its focus on containing capital expenditure, controlling its operating costs and improving efficiency.

Network prices comprise around half of household electricity bills, meaning that every effort made to safely control costs benefits Ausgrid's customers.

It is expected that by delivering efficiencies, Ausgrid will meet its target of keeping average network distribution price increases close to the Consumer Price Index (CPI) for customers for the next six years.

Reform program

As a result of NSW Government reforms to state-owned electricity networks that commenced 1 July 2012, a group management structure has been established to drive a reform program across Ausgrid, Endeavour Energy and Essential Energy for the benefit of customers.

This reform program is driving considerable change in the way the electricity distribution businesses operate and is designed to deliver significant savings for the benefit of families and businesses in NSW. The savings will be delivered through more streamlined corporate and support services, reducing duplication, more efficient capital spending and strategic procurement.

In 2012/13, Ausgrid started this work by restructuring the organisation and began reviewing each area to identify efficiencies.

Reliability

The Design Reliability and Performance licence conditions, set out by the NSW Minister for Energy in 2007, outline the minimum reliability standards Ausgrid needs to provide. It invests in the network to satisfy these standards, as required.

In 2012/13, the average reliability standards were met in each feeder category. However, 67 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.

Ausgrid's network reliability improved this year, according to the measures used to determine 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).

Customers were without electricity for an average of 68.24 minutes (SAIDI), compared to 80.88 minutes in 2011/12 (see graph on page 6). The average frequency of interruptions per customer (SAIFI) was 0.73 in this year, compared to 0.88 in the previous year (see graph on page 12).

To improve the reliability of supply for customers, a number of targeted projects were completed during the year. These included replacing bare overhead conductors with covered conductor conductors to reduce the number of supply interruptions in areas of heavy vegetation.

Nine automatic protective devices were installed to isolate faults to a smaller section of the network to help reduce the number of customers who had prolonged outages and shorten the time taken to locate network faults. 14 remote-controlled overhead line switches have also been installed to reduce restoration time after faults occur and enable sections of the network to be restored more rapidly.

Leverage technology

Throughout the year, key applications and infrastructure were upgraded to enable a reliable, scalable and secure computing platform as part of Ausgrid's Continuous Improvement Program. These included its enterprise and geographic information systems, and systems for outage management, document and records management and metering.

Ausgrid also migrated its zone substation monitoring and control systems from SCADA1 to a Distribution Network Management system to improve its communications network, control room oversight and disaster recovery capabilities.

Key system changes were also delivered under the National Energy Customer Framework program to assist Ausgrid in meeting its obligations under the new framework before its launch on 1 July 2013.

The rollout of smart sensors to distribution substations continued this year, bringing the total number of commissioned devices to 3,943. These sensors monitor ongoing transformer use, over-voltage and earth leakage faults, as well as phase imbalances.

Ausgrid continued to deliver the Australian Government's Smart Grid, Smart City project, commissioning more than 22,000 trial devices on the electricity network. This project, underway since 2010, was designed to gather information about costs and benefits of smart grid technology and included trials of distributed generation and storage, grid trials and feedback technology that make the most of smart meters.

Performance (cont.)

Manage business risk

Risk management activities

Throughout 2012/13, Ausgrid reviewed the major risks to achieving its strategic objectives and developed and implemented action plans to help manage those risks.

Ausgrid's management of business risk is based on awareness of its activities, operations and objectives; understanding what can go wrong and the consequences; and action plans to improve its response and prevent what can go wrong.

For example, in addressing network risks, Ausgrid completed a reassessment of the rated capacity of all critical 132kV cables. This followed a major zone substation outage at Enfield in 2011, where investigations revealed failure risks in major underground high-voltage cables belonging to both Ausgrid and TransGrid. After TransGrid substantially reduced the rating of one of the two largest cables supplying Sydney, Ausgrid jointly developed contingency plans and both short and long-term development plans to manage the risk of major interruptions in the Sydney metropolitan area.

This year a working group and project office was created to manage Ausgrid's next AER submission to address the risks associated with not meeting the requirements of the submission.

Business continuity plans are in place for Ausgrid's critical business processes to ensure they can continue in the event of a serious unplanned disruption. A testing program was conducted, which included a successful major facility continuity test. Lessons learnt

from the testing program are being applied to business continuity plans to ensure continuous improvement in preparedness.

Transitional services risk management

A potential risk has been Ausgrid's ability to deliver services under the Transitional Service Agreement (TSA) with EnergyAustralia (TRUenergy). However, all commitments were met in 2012/13, within the agreed contracted capacity constraints.

A plan to transition commercial and industrial (C&I) retail customers to EnergyAustralia was finalised in November 2012. The transition of C&I retail customer data was completed in March 2013 and post-transition support services ended in June.

A plan to transition mass market retail customers was completed in April 2013. This outlined the requirements of both organisations for the final transition of retail customer data, including customers and relevant services in 2013 and 2014. The plan also includes an agreement to provide technical, operational and IT support for EnergyAustralia for three months after the transition of retail services.

To prepare Ausgrid's remaining retail employees for the expected roll-off of the TSA in 2014, a team was established to identify future career opportunities, including redeployment of staff to its network business activities.

Bushfire risk management

Ausgrid works with stakeholders, including the NSW Rural Fire Service, local councils and community groups, to help protect its network against damage from bushfires. This year,

Ausgrid inspected almost 124,000 poles and overhead wires in bushfire-prone areas. Any high-risk defects identified on the network were corrected on a prioritised basis. Hazard reduction programs, including vegetation clearing, were also carried out to help protect essential infrastructure, such as major transmission lines.

Revised risk management framework

In 2012/13, Ausgrid, together with Endeavour Energy and Essential Energy implemented a revised common risk management framework that enables it to identify and manage risks that could affect its customers, the community, the environment, its people, assets and financial resources. This has ensured that risks were assessed and will be reported in a comparable manner in 2013/14.

Nine strategic risks were identified for 2013/14 across the three businesses that may impact Ausgrid. Actions required to manage these risks have also been outlined.

Both the revised risk management strategy and risk management plan will be reviewed by the Audit and Risk Committee of the Board throughout the coming year. "Risk owners" will provide regular reports to management and to the Audit and Risk Committee on the results of ongoing monitoring and review of risks, and on action plans to manage them. Risks to achievement of Ausgrid's corporate plan are continually identified and assessed across nine categories (see table below).

Table: Business risks identified for 2013/14

Risk category	Generic risk description
1 Safety	Fatality/serious injury of employee or member of the public
2 Network	Significant customer impact related to the network
3 Finance	Significant unbudgeted financial loss
4 Compliance	Liability associated with a dispute or material breach of legislation or licence
5 Reputation	Sustained public criticism of the organisation
6 Environment	Significant environmental incident
7 People	Failure to deliver performance through people
8 Strategy	Strategic objectives are not delivered and business opportunities are lost
9 Technology	Significant information, communications and technology service failure

Those risks specific to the delivery of the Strategic Plans are categorised as "strategic" risks and progress on managing these, as well as other "high" risks, is provided to the Board.

Deliver performance through people

Developing people

In addition to Ausgrid's apprentice and technical training program, 51 different training sessions and forums with 830 attendees were held this year in the areas of management, leadership and diversity.

Ongoing development programs were undertaken for 398 apprentices, 39 graduate engineers, 31 cadets, 39 trainee engineering officers and four commercial graduates.

E-learning continued to provide efficient development opportunities with 42 courses available online. These included asbestos, outage management and records management training, as well as training to support the roll-out of Ausgrid's new hazard assessment process.

As part of effective change management, employees in areas of the organisation impacted by the new National Energy Customer Framework received training prior to its launch in July 2013.

The Talent Program for future leaders continued for its third year, with 67 participants completing the training since it started in 2010. Ausgrid's Mentoring Program continued, designed to enhance employees' career development, and focus on their problem-solving and goal achievement skills.

Ausgrid again partnered with TAFE Sydney Institute to offer the Workplace English Literacy and Learning Program for electrical, cable jointer and lineworker apprentices. This program was partly funded by the Australian Government Skills Connect Fund.

Employee relations

Ausgrid negotiated a new two-year enterprise agreement covering the employment conditions of 5,408 staff.

The 2012 Enterprise Agreement was negotiated to help Ausgrid deliver its business objectives and provide rewarding and sustainable jobs for its employees.

The new Agreement, which includes a 2.7% per annum wage increase met key objectives of providing fair and responsible negotiated outcomes for its employees, and delivering value to customers.

Consistent with the NSW Government Wages Policy any salary increases above the CPI at Ausgrid must be offset by productivity improvements.



Ausgrid's cadets have been recognised for their outstanding efforts. Hayden Wittig (pictured, left) was awarded his third Dean's Award from the University of NSW (UNSW). Graduate engineer Michael Stanbury (pictured, right) was awarded the University Medal at his graduation ceremony at the University of Technology Sydney (UTS) and Kumaran Nathan was awarded the University Medal for coming first in his Electrical Engineering Degree at the University of Newcastle.

Network

Good asset management is essential to running a safe, reliable and sustainable electricity network while containing network average price increases. Ausgrid continued to maintain its network and deliver its infrastructure replacement program, allowing ageing equipment to be retired.

Determining network investment

The 2012/13 financial year was the fourth of a five-year network investment program outlined in a regulatory submission to the Australian Energy Regulator, the national regulator for electricity distribution and transmission networks (see network investment on page 12).

The main driver behind this program has been the need to upgrade or renew infrastructure due for replacement because about half of Ausgrid's major zone substations were built in the 1960s and 70s and another 20 percent were built in the 1950s or earlier.

Electrical infrastructure typically has an operating life of about 40 to 50 years so much of that equipment has needed replacement.

The capital program has also been driven by the need to meet reliability standards set by the NSW Government, and to cater for electricity use, in particular peak demands for power.

By 2014, Ausgrid will have largely completed major network investments that were needed to meet these licence conditions. This means capital expenditure will shift over the next five years from peak-demand driven major projects to a focus on the replacement of ageing assets to maintain network reliability.

The board approved five major projects greater than \$10 million during 2012/13. These were for the replacement of Peats Ridge 11kV switchgear and the New Lambton 11kV switchboard, and new zone substations at Tighes Hill, Toronto and Metford.

The peak demand recorded on Ausgrid's network during 2012/13 was 5,621 MW on 18 January 2013, an increase of 12.3 percent on the previous year. The peak temperature for that day was 46 degrees. By contrast, the aggregate winter peak was 4,829 MW, a fall of 6.6 percent compared to the previous year. This was the result of milder weather and economic factors.

Metering

Ausgrid completed more than 7.18 million electricity meter reads in its network area during 2012/13. More than 555,000 Ausgrid customers have a Time of Use (TOU) capable interval meter. These measure electricity use in half-hour intervals. About 3,000 AMI meters, which are interval meters with additional "smart" features are in use across Ausgrid's network. In addition, 17,800 smart meters have been installed as a part of the Federal Government's Smart Grid, Smart City program. The learnings from this program are assisting the development of future metering strategies.

Streetlighting

Ausgrid has 248,466 streetlight connections which it manages on behalf of councils and other customers in its network. Of these, 97,000 or 39 percent use energy-efficient globes.

This year 9,381 energy-efficient streetlights were installed and 23,404 streetlight faults were responded to. Of these, there were 22,949 faults due to overhead electricity network problems and on average they took 5.8 days for the repair of overhead faults.

Vegetation management

An important part of maintaining a safe and reliable service is the management of vegetation in Ausgrid's network. This year crews cleared vegetation from 130,747 overhead conductors and about 30,448 tonnes of cuttings were recycled.

Demand management

Ausgrid investigates demand management options for all network constraints where the cost of the proposed supply-side augmentation project is more than \$1 million. Six demand management screening tests and one detailed investigation were completed during 2012/13. The detailed investigation was found to be a cost-effective solution.

CREWS INSTALLED OR REPLACED ABOUT

438

DISTRIBUTION SUBSTATIONS

16,606

SERVICE WIRES

1,803

NETWORK DISTRIBUTORS

309

CUSTOMER DIRECT DISTRIBUTORS

MORE THAN

598KM

OF HIGH AND LOW-VOLTAGE CABLES INSTALLED

5,621MW

PEAK DEMAND ON 18 JANUARY 2013

63

MAJOR WORKS IN PROGRESS WITH A COST TO DATE OF > \$5M (SEE PAGE 84 FOR DETAILS)

In 2012/13, Ausgrid installed temporary generators to provide support during summer peak demand periods in the North West Pennant Hills and Medowie areas.

It also provided 5.1 MW of network support in the Sydney metropolitan area for TransGrid to reduce risks associated with construction of a new Bulk Supply Point (BSP) at Chullora. The support was provided by embedded generators, such as cogeneration and trigeneration units at nine sites.

In addition, Ausgrid implemented several demand management innovation programs. These included a residential trial in the Chatswood area that provided a financial reward to customers for allowing dynamic control of their small hot water systems (<100 litres) for short time periods.

Another program offered a financial incentive to encourage customers to connect large hot water systems to off-peak electricity supply.

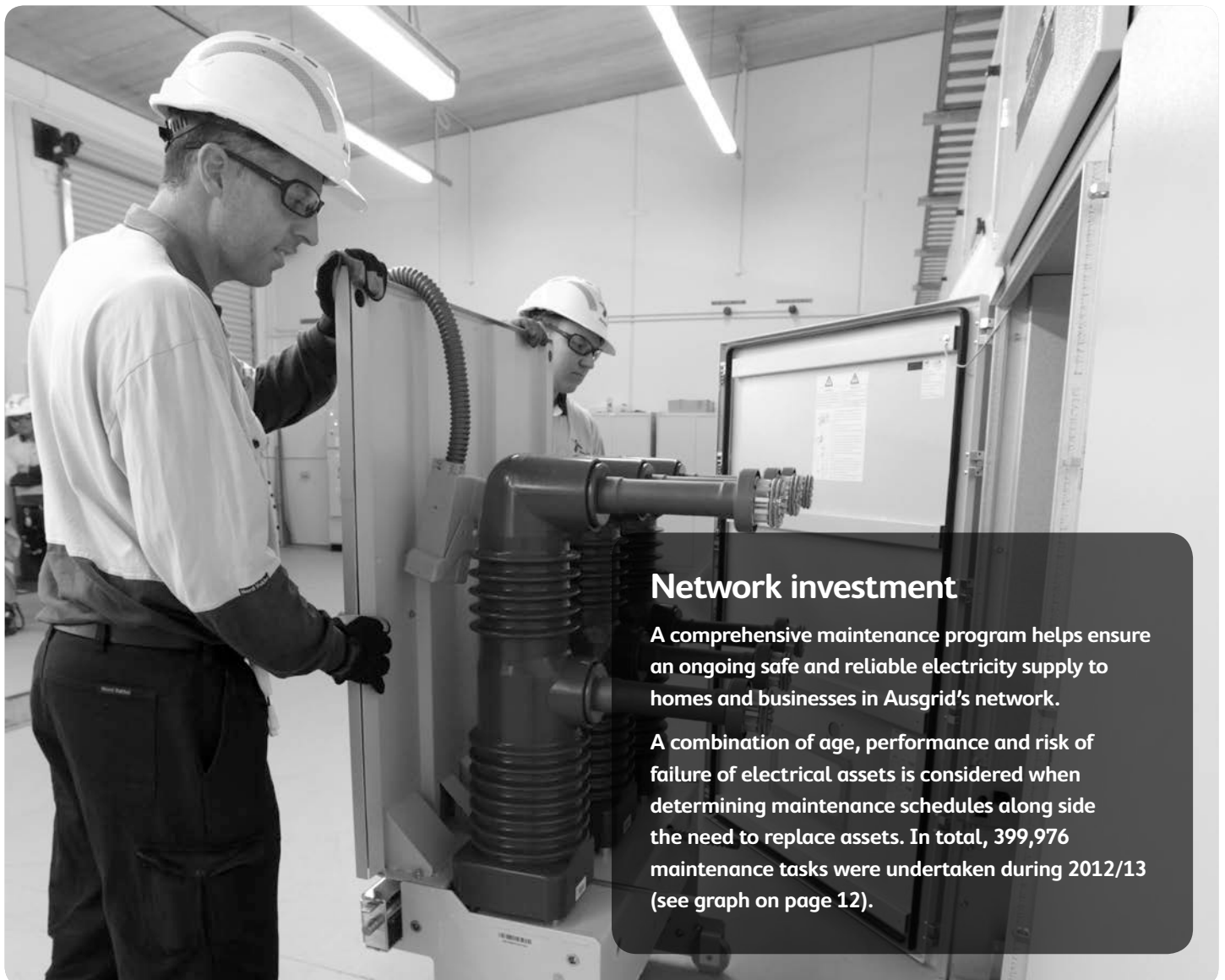
A Dynamic Peak Rebate (DPR) Trial was conducted in the area, offering a financial incentive to business customers to reduce their electricity consumptions during peak demand periods. Eighteen customer sites responded to five DPR events, resulting in a demand reduction of approximately 2.5 MVA.

National Energy Customer Framework

A new National Energy Customer Framework (NECF) commenced in NSW on 1 July 2013. These reforms harmonised the regulatory framework for customers of energy retail and distribution services nationally. In preparing for the introduction of NECF, Ausgrid was required

to review and modify systems, processes and documentation to ensure compliance with more than 110 obligations.

Significant changes were made to Ausgrid's website during 2012/13 as part of the compliance preparation. The new "Connecting to our network" section addresses many of the obligations and provides useful information and links for people to better understand the new customer framework.



Network investment

A comprehensive maintenance program helps ensure an ongoing safe and reliable electricity supply to homes and businesses in Ausgrid's network.

A combination of age, performance and risk of failure of electrical assets is considered when determining maintenance schedules along side the need to replace assets. In total, 399,976 maintenance tasks were undertaken during 2012/13 (see graph on page 12).

People

Capable, productive people are key to the success of Ausgrid's business. As part of its focus on network reform, activities have included aligning its structure and refreshing its organisational values. Ongoing initiatives have focused on workplace diversity and apprentice development.

A new CEO and Chief Operating Officer were confirmed to lead the organisation during the year. The recruitment of a new leadership team was also completed as Ausgrid was restructured into seven new divisions in November 2012. Level 4 manager recruitment followed in 2013.

Importantly, Ausgrid maintained its usual business operations during this significant change to the organisation.

Personnel policies and practices

Ausgrid refreshed its Code of Conduct, outlining the way it does business, including refreshed values and behaviours for its people (see page 27). The Code of Conduct articulates behaviours that characterise the desired organisational culture Ausgrid is aiming to achieve.

As part of the Network Reform Program and a focus on controlling costs, a new policy regarding Fleet Private Use for Senior Contract employees was introduced in December 2012.

Updates were also made to the Parental Leave policy to accommodate government initiatives relating to "Dad and Partner" leave.

A Human Resources Innovation program was introduced to update HR systems and add new online tools and forms to help employees manage their personal details. This online capability streamlines and automates work flow management and can be leveraged in future efficiency initiatives.

Apprentices

Ausgrid has recruited 1,299 apprentices since 2004, and 49 new apprentices joined this year to train as cable jointers, line workers and electrical mechanics. They will undertake a four-year apprenticeship and training in Sydney and Newcastle.

Although its plans include the ongoing recruitment of apprentices, the intake of new apprentices has been reduced in line with Ausgrid's future field workforce requirements.

Employee mobility

Ausgrid's Transitional Services Agreement (TSA) employee mobility team was established in 2013 to support the redeployment of employees whose positions have been affected by the sale of the retail assets and the roll-off of TSA services to EnergyAustralia.

The team has worked closely with these impacted employees to prepare them for changes to their careers. It has also developed strategies to find permanent roles for them once the transitional services agreement with EnergyAustralia ends.

Diversity

Ausgrid is committed to supporting and encouraging diversity in the workplace and continued programs to promote equal opportunity and the principles of equity and respect.

Women

Ausgrid's Women@Work Program aims to empower and support women in the workplace to reach their full potential, and it continued workshops and roundtable events this year. Topics included workplace bullying, women and mental health in the workplace, managing relationships at work, and career values and motivations.

Indigenous programs

Since 2006, Ausgrid has run a successful Indigenous Pre-Apprenticeship Program with assistance from the Australian Government's Indigenous Employment Program. During that time, more than 130 indigenous students have completed the Pre-Apprenticeship Program, using it as a stepping stone to other training and employment opportunities.

Following the completion of the 2012 program, 13 students obtained employment with five students gaining apprenticeships with Ausgrid.

The 2013 Indigenous Pre-Apprenticeship Program for 22 students has been delivered with a combined approach between Ausgrid, Endeavour Energy, Transgrid, MEGT and NECA Group Training.

5,840

EMPLOYEES (HEADCOUNT)

49

NEW APPRENTICES

158

APPRENTICES COMPLETED TRAINING

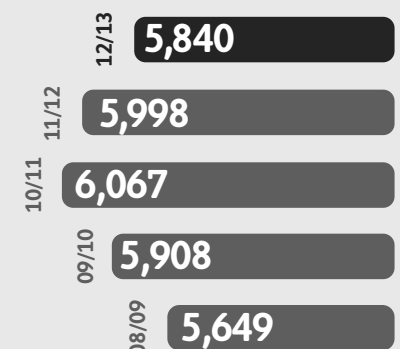
569

STAFF TRAINED IN EQUAL EMPLOYMENT OPPORTUNITY

130

INDIGENOUS STUDENTS HAVE COMPLETED THE PRE-APPRENTICESHIP PROGRAM SINCE 2006

▼ Number of employees



The Indigenous Buddy Program aims to sustain retention rates for indigenous employees by providing support and skills through mentoring for new indigenous apprentices during their first year.

Ausgrid's Indigenous Steering Committee is made up of indigenous employees who work together with program co-ordinators and Department of Employment, Education and Workplace Relations representatives. Together they support participants joining Ausgrid after the Pre-Apprenticeship Program, consider indigenous policy and programs at Ausgrid, communicate and share information in a safe and culturally appropriate environment, identify opportunities

for development and promote indigenous culture and community engagement.

The committee met four times during the year to plan and organise activities for Ausgrid staff, including National Aboriginal Islander Day of Celebration (NAIDOC) Week and Reconciliation Week celebrations. It also supported the Narrabeen Surf Life Saving Club's Bush to Beach Program for disadvantaged Aboriginal children from outback Brewarrinna.

Equal Employment Opportunity

Ausgrid is committed to the provision of equal employment opportunity (EEO) and promoting the principles of equity and respect in the

workplace. These principles are outlined in Ausgrid's values of "respect for people" and "act with integrity", and contribute to workplace co-operation, trust and support.

During 2012/13, 50 employees attended Working with Equity and Respect sessions and 519 staff completed EEO online training.

Ausgrid's Diversity and Inclusion Strategy (2011-2015) includes the development of a Disability Action Plan which will ensure that there are adequate support mechanisms and development opportunities for people with disabilities.



Apprentices

At 30 June 2013, there were 398 apprentices in training; 158 apprentices completed their qualification this year, with 144 of them taking up placements with Ausgrid.

Community

Ausgrid supports the communities in which it operates by working to ensure its network is safe and the public is free from harm. Over the past year, it has continued to promote public awareness of electrical safety, as well as engaging and communicating with the community on planned upgrades.

Public safety

Ausgrid delivered electrical safety campaigns through its Public Electrical Safety Awareness Program (PESAP) to raise awareness of the hazards associated with excavating near underground cables and working near overhead powerlines. The primary targets for these campaigns were outdoor workers, including tradespeople, construction workers and machinery operators.

General electrical safety awareness community campaigns included information on home do-it-yourself electrical safety, summer storms, bushfires and Christmas electrical safety. Ausgrid and Endeavour Energy also ran joint electrical safety messaging on radio stations in Sydney throughout 2012/13.

In spite of these awareness campaigns, 313 electric shocks were reported on private premises in the period 2012/13, compared to 389 the previous year; 11.5 percent of this year's incidents were caused by defective service line connections.

Ausgrid's electricity education programs and resources have been developed in association with the Department of Education & Communities and incorporate safety as a core theme. Programs and resources are available for schools, including those for Electricity Safety Week held annually in September.

Security

Ausgrid makes every effort to protect the community and secure the electricity network from theft and damage. Regular security patrols of the network and its assets were conducted throughout the year to help prevent illegal entry and theft of essential infrastructure.

In spite of this, there were 94 incidents of theft reported at Ausgrid depots and substations at a cost of \$120,927 and an additional 22 incidents of copper theft worth \$73,919.

Ausgrid is continuing to improve security at its substations with the installation of electronic security systems to aid in the detection of attempted and actual security breaches.

Dial Before You Dig

Damage to the underground electricity network can cause blackouts to homes and businesses and serious injury. Dial Before You Dig (DBYD) is a non-profit, free, referral service that gives residents, builders, plumbers and other trades people access to maps detailing underground services. Ausgrid received and processed 106,766 DBYD referrals during the reporting period.

Graffiti

Ausgrid works to keep its electricity network safe, clean and free of graffiti vandalism. In 2012/13, it invested more than \$1 million to clean graffiti from its infrastructure. Crews responded to 3,108 reports of graffiti, about 14 percent more than 2011/12. The average response time for reports of graffiti vandalism was about six days, with offensive graffiti removed in less than four days on average.

Customer Council

Ausgrid's Customer Council met four times throughout the year to discuss its capital works program, network price rises, energy efficiency and public safety programs, the Smart Grid, Smart City project, and issues related to electricity market reform. Its membership comprises stakeholder groups, including the Smith Family, Ethnic Communities Council, Council of Social Service of NSW, Nature Conservation Council, COTA Over 50s and the Country Women's Association.

Public consultation

Ausgrid considers the interests of the community throughout the planning and construction of major new infrastructure. The organisation consulted with community members on more than 70 major projects, including new and upgraded substations and new transmission cables. The community was notified of major projects through community information displays, on-site meetings, newsletters and public signage. Ausgrid provides local stakeholders with 1800 information phone numbers and email contacts to allow direct access to dedicated project teams.

3,018

REPORTS OF GRAFFITI RESPONDED TO

106,766

DIAL BEFORE YOU DIG REFERRALS (UP FROM 98,371 IN 2011/12)

\$215,000

CONTRIBUTED BY EMPLOYEES THROUGH PAYROLL GIVING

580

GRANTS PROVIDED TO COMMUNITY GROUPS

35%

REDUCTION IN COMMUNITY PARTNERSHIP BUDGET TO MINIMISE OPERATING COSTS

859

SCHOOLS REGISTERED FOR ELECTRICITY SAFETY WEEK

Ausgrid also updated local communities on individual projects via Twitter and Facebook.

Community partnerships

Ausgrid's community partnerships focus on community care and safety; education and innovation; and sustainability and energy efficiency.

In 2012/13, Ausgrid's annual budget for community partnerships reduced by 35 percent as part of ongoing efforts to minimise operating costs and electricity price impacts. Further reductions to its partnership portfolio were made throughout the year to deliver additional savings in 2013/14.

Investment in the community

More than 580 financial grants were provided to over 230 community groups this year through Ausgrid's Community Care program, contributing \$69,500 to the community initiatives that employees were actively involved in.

In addition, 1,057 employees contributed more than \$215,000 to 20 registered charities in the payroll giving program, including staff contributions of more than \$57,000 to the Ausgrid Employees' Children's Appeal.

As part of its commitment to ensuring the safety of its workforce and the community, Ausgrid contributed \$50,000 to the Sydney Burns Foundation. These funds were provided as part of a two-year partnership to support researchers at Concord Hospital's Skin Laboratory in their work to develop a fully functioning replacement skin that would radically improve the lives of burns patients after surgery.

Multicultural policies and services program

Ausgrid's corporate values commit the organisation to acknowledging and valuing cultural diversity through the management of employees and interactions with suppliers, and the delivery of customer services to the community.

A Diversity Council provides oversight and guidance for Ausgrid's Diversity and Inclusion Strategy and Policy. Ausgrid became a member of the NSW Equal Employment Opportunity Practitioners' Association (NEOPA) and held its first 'Women in Trades' Work Experience Week in November 2012, in partnership with Women NSW to increase gender diversity in non-traditional roles.

Ausgrid continued to offer a language interpreter assistance service to cater for customers from diverse cultural and linguistic backgrounds, a service for hearing-impaired customers and correspondence in Braille and audiotape formats for visually-impaired customers.

A small business fact sheet, "Becoming an Energy Efficient Business", was developed with the Ethnic Communities Council and translated into 10 customer languages. In 2013/14, Ausgrid plans to continue developing multicultural initiatives and diversity on the Ausgrid website, merit appointment processes and employee training.

Staff support the Hunter Westpac Rescue Helicopter

Employees donated \$68,050 to the Hunter Westpac Rescue Helicopter through an employee payroll giving program and Ausgrid contributed an additional \$30,000 to the service in 2012/13. The Westpac Rescue Helicopter Service provides emergency aeromedical transport to the community across the Hunter, Central and Mid-North Coasts of NSW.



Environment

Ausgrid manages its electricity network in line with various environmental regulations while reducing waste and improving its energy efficiency to further help minimise the impact of its operations on the environment.

Environmental management and compliance

In 2012/13, Ausgrid implemented a new risk management framework. This included a major review of its Environmental Management System (EMS) – the way Ausgrid manages its environmental performance.

Both the revised Environmental Policy and Environmental Code of Conduct detail how Ausgrid aims to achieve its commitment to comply with environmental laws and minimise the impact from its past, present and future activities. These policies are available on Ausgrid's website.

In 2012/13, Ausgrid scored 99 percent for its Environmental Sustainability Improvement Plan, which sets actions to improve Ausgrid's environmental performance.

Eight pollution incidents were reported under the *NSW Protection of the Environment Operations Act 1997*, down from 11 incidents in the past year.

In addition, 87 minor incidents were reported internally during the period. The majority of these involved noise complaints. Other incidents involved sediment control, oil-filled equipment, vegetation, contaminated land, water quality and heritage items.

In April 2013, Ausgrid was convicted in the NSW Land and Environment Court and fined \$4,690 for the offence of harming an Aboriginal object. The incident occurred in December 2010 when a contractor working for a private developer damaged an Aboriginal rock engraving in Sydney's northern beaches.

Following the incident, Ausgrid has made a number of changes to the way it assesses and approves work across its network, including stronger planning approvals, greater oversight for all environmental approvals and an improved training regime.

Emissions

The majority of greenhouse gas emissions were from fuel used by the vehicle fleet to maintain the electricity network.

They contributed 58 percent of total emissions. Emissions from fuel in 2012/13 were down by 9 percent to 20,981 tonnes.

Ausgrid changed from 100 percent to 16 percent renewable energy for its own electricity use in April 2013. This change was made following the introduction of the carbon tax to lower the cost of its operations for customers. The change contributed to a 28 percent increase in total greenhouse gas emissions to 36,306 tonnes in 2012/13.

Carbon emissions from Ausgrid's own electricity use increased to 5,284 tonnes which is 15 percent of total emissions, following the decision to reduce the volume of renewable electricity purchased.

Greenhouse emissions from the use of natural gas in Ausgrid's buildings dropped by 13 percent to 730 tonnes, making up two percent of overall emissions.

There was a change in the national greenhouse reporting rules, which increased the deemed emissions from sulphur hexafluoride (SF₆), a gas used to suppress arcing in switchgear. SF₆ has a high global warming potential and Ausgrid calculates its emissions using the National Greenhouse Account Factors.

The deemed emissions rate increased from 0.5 percent of volume in service to 0.89 percent, which increased the reported greenhouse emissions. The volume of SF₆ in service increased from 39 to 44 tonnes and deemed emissions were 9,318 tonnes, and accounted for 26 percent of emissions in 2012/13.

Ausgrid uses automated alarms and controls to detect leaks and limit losses. New processes and systems were introduced throughout the year to help accurately measure losses and report actual rather than deemed SF₆ emissions.

Recycling

Reusing or recycling materials helps Ausgrid reduce waste generated from building and maintaining its network. This year it recycled about 3,700 tonnes of material through its reclamation program. This included about

8,805

ENVIRONMENTAL TRAINING COURSES COMPLETED

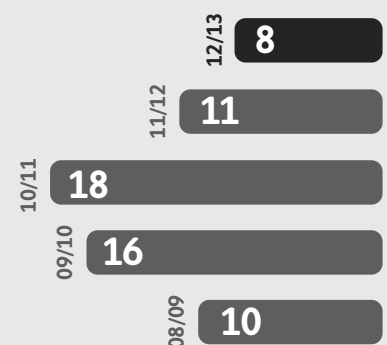
99MW

TOTAL GENERATION CAPACITY OF SOLAR SYSTEMS CONNECTED TO AUSGRID'S NETWORK

3,700

TONNES OF MATERIAL RECYCLED

Reportable environmental pollution incidents



2,200 tonnes of steel and other metals from replaced equipment, such as transformers, 476,000 litres of waste oil and more than 40 tonnes of replaced power poles.

Ausgrid also recycles its powerlines when they are replaced and in 2012/13 this resulted in 1,040 tonnes of copper and aluminium cable sent to recyclers for reuse. This is equivalent to about 700 kilometres of low voltage powerlines.

Water, power and fuel use

Water use at Ausgrid buildings was about 144 million litres this year, similar to water use last year. Since 2009/10, water efficiency initiatives helped to reduce water use by 14 percent.

In 2012/13, electricity use was up one percent to

about 29,483 megawatt-hours, driven primarily by construction work on the City West Cable Tunnel project. Non-construction electricity use declined by four percent from 2011/12 to 27,430 megawatt-hours. Natural gas use in Ausgrid buildings was 14,095 gigajoules, down 13 percent from the previous year.

A concerted effort to reduce fuel use resulted in a 10 percent reduction to 8,509 kilolitres. Fuel use in the year included 5,733 kilolitres of diesel, 1,589 kilolitres of E-10, 1,041 kilolitres of unleaded petrol and 106 kilolitres of LPG.

In accordance with the NSW Government Clear Fleet Initiative Ausgrid uses E10 fuel in all capable fleet vehicles.

PCBs

Electricity transformers contain oil to assist in the safe operation of electrical equipment. Historically, transformer oil contained PCB (polychlorinated biphenyl), a known hazardous substance. In 1989, Ausgrid began a program to remove PCBs from its network, in line with the *Environmentally Hazardous Chemicals Act 1985*, Ausgrid has removed all known pure PCBs from its network. In 2012/13, 273,919 litres of PCB-contaminated oil and 615 tonnes of PCB-contaminated equipment were removed from the network and sent to a licensed facility for recovery.



Homes for wildlife

A number of frogs were found as part of an environmental assessment for an 11,000 Volt underground cable project at Sydney Olympic Park, including one of the rarest frogs in Australia – the Green and Golden Bell Frog. The frogs were temporarily relocated and a daily inspection regime was implemented for the remainder of the project.

Land and Environment Court findings

Ausgrid has been convicted in the Land and Environment Court of one offence of harming an Aboriginal object.

On 2 December 2010, a contractor carried out excavation works which damaged an Aboriginal rock engraving located at Cromer. The contractor was unaware that there was an Aboriginal rock engraving in the area because an environmental impact assessment reviewed by Ausgrid mistakenly stated that the works were not expected to impact on any Aboriginal objects. The damage to the rock engraving was caused by a mistake on the part of Ausgrid in failing to adequately review the environmental impact assessment in relation to the excavation works.

The excavation works resulted in the Aboriginal rock engraving being damaged and a large portion of the original engraving being removed.

Ausgrid was prosecuted by the Office of Environment and Heritage, NSW (OEH).

Ausgrid pleaded guilty to the charge, was ordered to pay a fine of \$4690 and ordered to pay OEH's legal costs in the amount of \$36,000.

This notice was placed by order of the Land and Environment Court and was paid for by Ausgrid.

Governance

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

Changes to governance and management structure

In 2012 the NSW Government announced plans to reform the three NSW electricity network companies – Ausgrid, Endeavour Energy and Essential Energy – to generate \$400 million in efficiencies over four years to fund its energy rebate scheme for low income households and families.

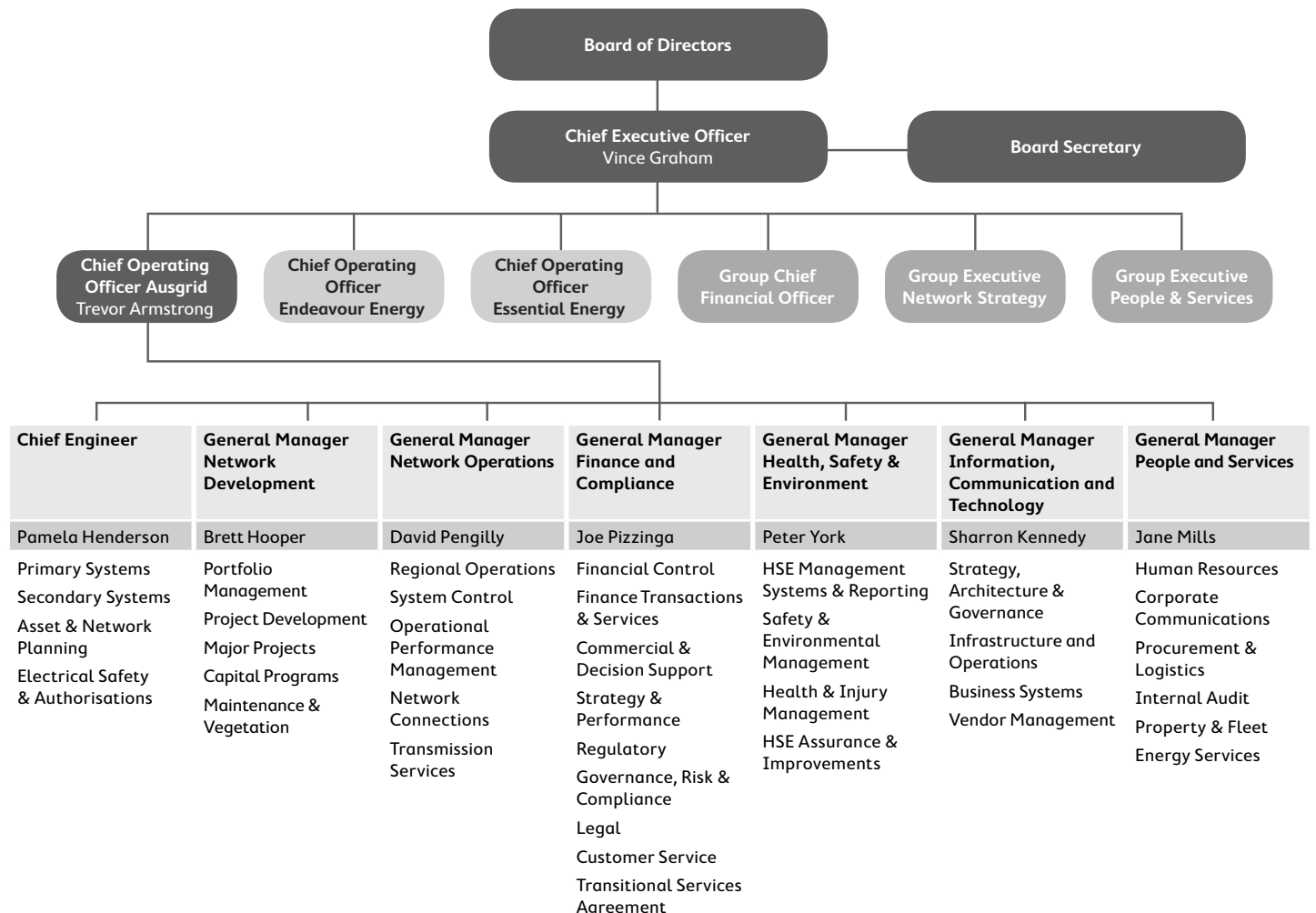
Ausgrid, Endeavour Energy and Essential Energy continue to operate as separate legal entities but are managed by a joint Board of Directors and common Chief Executive Officer (CEO). The three network companies operate under a shared group management model known as Networks NSW. Each business remains focused 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, who each hold one share in each of the three businesses 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.



The Board of directors during 2012-13

A new governance and management structure commenced on 1 July 2012 with a common Chairman, Directors and CEO replacing the three Chairmen, Directors and CEOs at Ausgrid, Endeavour Energy and Essential Energy. As a result, the term of the former non-executive directors concluded on 30 June 2012. Ms Penny Le Couteur was appointed to serve a further term until 30 June 2013.

Ausgrid Board of Directors

Roger Massy-Greene BSc BE (Hons) MBA FAICD
Chairman

Term: 1 July 2012 to 30 June 2015

Chairman of the Board from 1 July 2012
Chairman, Nominations Committee member,
Audit and Risk Committee member and Safety,
Human Resources and Environment Committees.

Other Directorships:

- Endeavour Energy, Chairman
- Essential Energy, Chairman
- Eureka Capital Partners Pty Ltd, Chairman
- Salvation Army's Red Shield Appeal Committee Sydney, Chairman
- Eureka Benevolent Foundation, Chairman
- OneVentures Pty Ltd, Director
- The Hunger Project Australia, Director.

Peter Dodd PhD MSc MCom BCom Dip Ed
Non-executive director

Term: 1 July 2012 to 31 December 2013

Chairman, Audit and Risk Committee member,
Nominations Committee.

Other Directorships:

- Endeavour Energy, Director
- Essential Energy, Director
- The Centre for Independent Studies Ltd, Director
- Peter Dodd Pty Ltd, Director
- Collgar Wind Farm Pty Ltd, Director
- CWF Holding Pty Ltd, Director
- Energy Industries Superannuation Scheme (EISS), Director
- Investa Listed Funds Management Limited (ILFML), Director
- Macquarie University Group of companies, 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 (from 25 March 2013).

Other Directorships:

- Endeavour Energy, Director
- Essential Energy, Director
- Australian Renewable Fuels Limited, Chairman
- Downer EDI Limited, Director
- Water Polo Australia Limited, Director
- Biofuel Producers Limited, Director
- Charter Hall Limited, Director
- Charter Hall Funds Management Limited, Director.

Penny Le Couteur BSc (Hons) MAICD
Non-executive director

Term: 1 July 2012 to 30 June 2013

Chairman, Safety, Human Resources and
Environment Committee (from 1 July 2012
to 25 March 2013) member, Audit and Risk
Committee and Nominations Committee

Note: Term expired on 30 June 2013 – did not
seek re-appointment.

Other Directorships:

- Endeavour Energy, Director
- Essential Energy, Director
- Aurora New Music Inc
- Bennelong Forty Two Pty Ltd, Director
- The Song Company, Director
- WorkCover Tasmania, Director.

Laura Reed BBus, MBA, FCPA
Non-executive Director

Term: 1 January 2013 to 31 December 2015
member, Audit and Risk Committee.

Other Directorships:

- Endeavour Energy, Director
- Essential Energy, Director
- ATCO Australia Pty Limited, Director
- ATCO Gas Australia GP Pty Limited, Director
- MAPS Group, Director.

Vince Graham BE (Civil), Grad Dip Mgmt, FAICD
Chief Executive Officer and Executive Director

Term: Initial appointment as Chief Executive
Officer 1 July 2012 to 31 December 2012.
Following a recruitment process, appointed as
Chief Executive Officer December 2012.

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
- Graham Management Services Pty Limited, Director (inactive).

Expiry of Term of Appointment during 2012/13

Barbara Ward AM BEc Mpd Econ MAICD
Non-executive director

Term: 1 July 2012 to 31 December 2012

Note: Term expired on 31 December 2012
– did not seek re-appointment.

1 July 2012 to 30 June 2013 Directors' Attendance Schedule

Scheduled	Board of Directors' Meeting		Audit & Risk Sub-Committee		Safety, Human Resources and Environment		Nominations		
	A	B	A	B	A	B	A	B	B
R. Massy-Greene	16	16	6	6	2	2	3		3
P. Dodd	16	16	6	6	-	-	3		3
P. Garling	6	5	-	#1	2	2	-		-
P. Le Couteur	16	15	3	3	2	2	3		3
L. Reed	6	6	3	3	-	-	-		-
B. Ward	10	10	3	3	-	-	-		3
V Graham	15	14	*6	6	*2	2	-		-

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

* – the CEO is an Ex-officio member of the Audit & Risk and Safety, Human Resources and Environment Committees

– Attended meetings while not a member of the Committee

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). It is governed, principally, by the two statutes mentioned and its Constitution.

Two amendment bills were passed by Parliament and received assent from the Governor on 3 June 2013.

An amendment to the State Owned Corporations Legislation removed the requirement for a director nominated by Unions NSW.

Ausgrid's board and leadership team believe that good governance is a critical prerequisite for a high-performance organisation with a sustainable future and share a commitment to high standards of business integrity, ethics and professionalism across all activities. The Ausgrid Code of Conduct sets out the expectations for the staff behaviour that is fundamental to its business success and encourages a culture of responsibility and accountability that promotes ethical and responsible decision making.

Good governance ensures the delivery of outcomes sought by Ausgrid shareholders, supports Ausgrid employees and business operations, and ensures sound ethical, financial and risk management practices and effective compliance and auditing programs.

Board of Directors

The *Energy Services Corporations Act 1995* (NSW), the *State Owned Corporations Act 1989* (NSW) and the Constitution of Ausgrid address the membership of the board of Ausgrid.

All members of Ausgrid's board of directors, 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 by the voting shareholders.

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

Role and responsibilities of the Board

The board is responsible for the corporate governance of Ausgrid including setting the strategic direction, establishing performance targets as set out in the Statement of Corporate Intent, and monitoring the achievement of those targets. In carrying out its responsibilities, the board undertakes to serve the interests of the voting shareholders, as well as its employees, suppliers and customers and the broader community, honestly, fairly, diligently and in accordance with all applicable laws.

The board of directors operates at all times in accordance with its Charter which is designed to complement the Constitution of Ausgrid.

Board committees

The role of the board is to provide strategic guidance for the corporation and effective oversight of its management. In undertaking this role, the board has established the following committees:

Audit and Risk Committee

The Audit and Risk Committee meets at least four times per year and monitors audit and business risk matters, including compliance, are dealt with in an independent manner. The committee's responsibilities cover matters relating to the financial affairs and business risks of Ausgrid, internal and external audits, risk management, compliance and fraud prevention. In addition, the committee examines any other matters referred to it by the board.

Safety, Human Resources and Environment Committee

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

Nominations Committee

The Nominations Committee meets as required and assists the board in fulfilling its responsibilities with regard to director appointments and re-appointments. The Nominations Committee consists of the Chairman of the board and two non-executive directors.

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 certain 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.

Legislative changes

Two amendment bills were passed by Parliament and received assent from the Governor on 3 June 2013.

An amendment to the State Owned Corporations Legislation removed the requirement for a director nominated by Unions NSW.

An amendment to the Energy Services Corporations Legislation provided for the appointment of a single board of directors that is to be the board of each of the energy distributors (Ausgrid, Endeavour Energy and Essential Energy) to act in the best interests of energy distributors as if they formed part of a combined operation. The legislation was proclaimed on 27 August 2013.

Executive Leadership Team

Chief Operating Officer

Trevor Armstrong BE, GAICD, FIEAust

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

Insurance

Ausgrid reviews the adequacy of insurance policy coverage and limits during each annual insurance renewal process. It ensures all participating insurers meet Ausgrid's counterparty risk 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 laws and regulations, codes and policies are being complied with, and financial reporting is accurate.

Code of Conduct

In 2013, Ausgrid refreshed its Code of Conduct which outlines the way it does business. It included five refreshed values – safety excellence, respect for people, customer and community focus, continuous improvement and act with integrity – and guiding behaviours that underpin them. The Code of Conduct clearly articulates behaviours that characterise the organisational culture Ausgrid wants.

Ausgrid also has a Computing Code of Conduct and an Environmental Code of Conduct. The 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. Ausgrid's Code of Conduct 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 through the Audit Office of New South Wales. It also provided independent external audit services to Ausgrid for the 2011/12 RIN – Regulatory Accounts. 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 National Privacy Principles which form part of the *Privacy and Personal Information Protection Act 1998 (PPIPA)* (Cth) as the basis for privacy standards in relation to personal information held. Ausgrid's Privacy Policy is available on its website, www.ausgrid.com.au.

Fraud and corruption

Maintaining ethical behaviour is core to effective corporate governance. This requires leading by example and building a culture of performance aligned to integrity and Ausgrid's behaviours that underpin its 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 identify fraud or corruption. The Fraud and Corruption Prevention Guidelines and other policies and procedures provide a mechanism for reporting fraud or corruption under the *Public Interest Disclosure Act 1994*.



Refreshed Code of Conduct

A refreshed Code of Conduct and values were rolled out in April 2013. Managers and supervisors briefed their teams, explaining what the refreshed behaviours mean and how they apply to help all staff do the right thing in the workplace.

Finance report

Financial results	2012/13 result	2012/13 SCI	Variation to SCI	2011/12 result
Operating revenue (\$m)	3,345.5	3,368.0	(22.5)	2,926.1
EBIT (\$m)	1,596.9	1,484.3	112.6	1,118.2
EBITDA (\$m)	2,092.0	1,978.4	97.4	1,539.1
Net profit after tax (\$m)	706.2	620.9	85.3	350.9
Dividend (\$m)	462.6	434.6	28.0	239.9
Other payments (\$m)	-	-	-	1,370.0
Total distributions to Government (\$m)	755.7	700.7	55.0	384.4
Return on equity (%)	23.2	31.3	(8.1)	18.4
Capital expenditure (\$m)	1,331.9	1,681.7	(349.8)	1,727.7

Financial highlights

Ausgrid achieved a Net Profit After Tax (NPAT) result of \$706.2 million in FY12/13, \$85.3 million higher than budget and \$355.3 million higher than the previous year's result. The improved NPAT result when compared to 2011/12 was due to reduced operating costs and higher network revenues as a result of AER-approved price increases of 18 percent.

The higher than budgeted NPAT result was primarily due to lower operating costs and improved Transitional Services Agreement gross margin results.

The lower than budgeted operating revenue result for the year was due to lower than budgeted energy volumes.

Return on shareholders' funds

Total company assets were \$16.2 billion at 30 June 2013 and the return on these assets was 10.9 percent. Shareholders' equity increased during 2012/13 to \$4.2 billion, reflecting a \$2.9 billion increase in the revaluation of system assets.

Ausgrid achieved a 23.2 percent return on equity which was lower than the Statement of Corporate Intent target of 31.3 percent. This was also affected by the revaluation of system assets. Ausgrid's distributions to the NSW Government were \$755.7 million with dividends provided at year end totalling \$462.6 million and income tax expense totalling \$293.1 million.

Total capital expenditure of \$1.3 billion was \$349.8 million less than budget, reflecting lower expenditure on system assets, IT&T and non-system buildings. The lower than budgeted capital expenditure was a result of a detailed review of our capital program as a result of reductions in energy demand and growth experienced over the last couple of years.

This reduced expenditure ensures the value of Ausgrid's asset base is lower (ignoring revaluations) than would otherwise have been the case when the Australian Energy Regulator sets network prices in 2014 and will help maintain average network distribution price increases close to CPI.



Ausgrid

Financial statements

For the year ended 30 June 2013

30	Statement of Comprehensive Income
31	Statement of Financial Position
32	Statement of Changes in Equity
33	Statement of Cash Flows
34	Notes to the Financial Statements
71	Statement by Directors
72	Independent Auditor's Report

Page Notes to the financial statements

34	1	Significant accounting policies	62	17	Key management personnel disclosure
42	2	Revenue	62	18	Related parties transactions
43	3	Expenses	63	19	Remuneration of auditor
44	4	Income tax expense	64	20	Contingent liabilities and contingent assets
45	5	Deferred tax assets / liabilities	64	21	Capital commitments
46	6	Cash and cash equivalents	64	22	Operating leases
47	7	Trade and other receivables	66	23	Reconciliation of cashflows from operating activities
47	8	Derivative financial instruments	66	24	Superannuation – defined benefits plan
47	9	Other current assets	70	25	Events subsequent to balance date
48	10	Property, plant and equipment			
49	11	Intangible assets			
50	12	Trade and other payables			
50	13	Borrowings			
52	14	Provisions			
53	15	Other liabilities			
54	16	Financial instruments disclosure			



Ausgrid

Statement of comprehensive income

For the year ended 30 June 2013

	Note	2013 \$M	2012 \$M
Revenue	2	3 345.5	2 926.1
Expenses excluding finance costs	3(a)	(1 748.6)	(1 807.9)
Finance costs	3(b)	(597.6)	(622.8)
Profit before income tax		999.3	495.4
Income tax expense	4	293.1	144.5
Profit for the year		706.2	350.9
Other Comprehensive Income			
Items that will not be reclassified subsequently to profit or loss			
Net increase/(decrease) in revaluation reserve		2 863.0	(12.5)
Superannuation defined benefits actuarial gains/(losses)	24(b)	76.1	(206.2)
Income tax expense/(credit) relating to items not reclassified	4	881.3	(67.1)
Total other comprehensive income for the year, net of tax		2 057.8	(151.6)
Total comprehensive income for the year		2 764.0	199.3

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

Ausgrid

Statement of financial position

As at 30 June 2013

	Note	2013 \$M	2012 \$M
Assets			
Current assets			
Cash and cash equivalents	6	81.4	246.4
Trade and other receivables	7	637.5	475.8
Inventories		36.4	38.6
Derivative financial instruments	8	82.1	69.2
Other current assets	9	22.4	46.4
Assets classified as held for sale		1.2	-
Total current assets		861.0	876.4
Non-current assets			
Derivative financial instruments	8	-	0.1
Property, plant and equipment	10	15 006.1	11 305.2
Intangible assets	11	296.4	268.3
Total non-current assets		15 302.5	11 573.6
Total assets		16 163.5	12 450.0
Liabilities			
Current liabilities			
Trade and other payables	12	495.9	486.0
Borrowings	13	-	474.4
Derivative financial instruments	8	82.1	69.2
Current tax liabilities		174.6	115.5
Provisions	14	953.7	795.5
Deferred government grants		41.9	14.3
Other current liabilities	15	29.0	46.4
Total current liabilities		1 777.2	2 001.3
Non-current liabilities			
Borrowings	13	8 502.6	7 707.6
Deferred tax liabilities	5	1 205.5	279.1
Provisions	14	424.2	455.1
Derivative financial instruments	8	-	0.1
Deferred government grants		56.8	108.9
Other non-current liabilities	15	6.7	8.8
Total non current liabilities		10 195.8	8 559.6
Total liabilities		11 973.0	10 560.9
Net assets		4 190.5	1 889.1
Equity			
Contributed equity		402.1	402.1
Reserves		2 989.2	986.2
Retained earnings		799.2	500.8
Total equity		4 190.5	1 889.1

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

Ausgrid

Statement of changes in equity

For the year ended 30 June 2013

	Contributed Equity	Asset Revaluation Reserve	Retained earnings	Total equity
Note	\$M	\$M	\$M	\$M
Balance at 1 July 2011	402.1	998.5	529.1	1 929.7
Profit for the year	-	-	350.9	350.9
Other comprehensive income				
Net increase/(decrease) in revaluation reserve, net of tax	-	(7.2)	-	(7.2)
Superannuation actuarial gains/(losses), net of tax	-	-	(144.4)	(144.4)
Total other comprehensive income	-	(7.2)	(144.4)	(151.6)
Total comprehensive income for the year	0.0	(7.2)	206.5	199.3
Transactions with owners recorded directly in Equity				
Dividends provided for or paid	-	-	(239.9)	(239.9)
Transfers to retained earnings, net of tax	-	(5.1)	5.1	-
Total transactions with owners	-	(5.1)	(234.8)	(239.9)
Balance at 30 June 2012	402.1	986.2	500.8	1 889.1
Profit for the year	-	-	706.2	706.2
Other comprehensive income				
Net increase/(decrease) in revaluation reserve, net of tax	-	2 004.5	-	2 004.5
Superannuation actuarial gains/(losses), net of tax	-	-	53.3	53.3
Total other comprehensive income	-	2 004.5	53.3	2 057.8
Total comprehensive income for the year	0.0	2 004.5	759.5	2 764.0
Transactions with owners recorded directly in Equity				
Dividends provided for or paid	-	-	(462.6)	(462.6)
Transfers to retained earnings, net of tax	-	(1.5)	1.5	-
Total transactions with owners	-	(1.5)	(461.1)	(462.6)
Balance at 30 June 2013	402.1	2 989.2	799.2	4 190.5

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

Ausgrid

Statement of cash flows

For the year ended 30 June 2013

	Note	2013 \$M	2012 \$M
Cash flows from operating activities			
Receipts from customers		3 330.6	3 161.3
Payments to suppliers and employees		(1 524.7)	(1 674.7)
Interest received		20.2	2.0
Interest paid		(585.6)	(616.2)
Income taxes paid		(188.8)	(254.2)
Net cash inflow (outflow) from operating activities	23	1 051.7	618.2
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(1 278.2)	(1 689.1)
Proceeds from sale of property, plant and equipment		4.1	4.7
Net cash inflow (outflow) from investing activities		(1274.1)	(1 684.4)
Cash flows from financing activities			
Proceeds from borrowings		297.3	1 388.3
Dividends paid		(239.9)	(175.1)
Net cash inflow/(outflow) from financing activities		57.4	1 213.2
Net increase/(decrease) in cash and cash equivalents		(165.0)	147.0
Cash and cash equivalents at the beginning of the year	6	246.4	99.4
Cash and cash equivalents at the end of the year	6	81.4	246.4

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

Notes to the financial statements

For the year ended 30 June 2013

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting entity

Ausgrid is a New South Wales statutory state owned corporation (for-profit) established on 1 March 1996 by the *Energy Services Corporations Act 1995*. The financial statements of Ausgrid for the year ended 30 June 2013 comprises the parent entity only.

The financial statements were authorised for issue by the Directors on 13 September 2013.

(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 2010*, and the *State Owned Corporations Act 1989*. The financial statements of Ausgrid 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.

The Corporation has adopted a policy of netting deferred tax liability and assets in the presentation of the Statement of Financial Position. The change has resulted in a reduction in both assets and liabilities in the comparative prior year of \$327.8 million.

The Corporation has combined the Employee Benefits with Provisions. The value of Employee Benefits in the prior year totalled \$891 million.

The following comparative amounts have been reclassified to conform with the current year's presentation:

1. The Corporation has reclassified Note 2 Revenue:

(i) Transmission revenue is now separately identified in this year's accounts. In the prior year, the value of Transmission revenue of \$54.2 million was included in 'Sale of energy and services rendered';

(ii) Recoverable works is now included in External/Recoverable/Contestable Works. In the prior year, Recoverable works of \$4.2 million was separately identified; and

(iii) Transitional services agreement is now combined in the category of 'Other'. In the prior year, Transitional services agreement of \$160.7 million was separately identified.

2. The Corporation has reclassified Note 3 Expenses:

(i) Superannuation expense (defined contribution plan) is separately identified in this year's accounts. In the prior year, Superannuation expense (defined contribution plan) of \$51.7 million was classified as 'Employee benefits expense';

(ii) Operating lease rental and External consultants are now separately identified. In the prior year, Operating lease rental of \$31.3 million and External consultants of \$1.6 million were classified as 'Distributors of energy and other services';

(iii) This year, Amortisation of intangible assets-other has been separately identified. In the prior year, \$2.0 million was included in Amortisation – Intangible assets – Computer software; and

(iv) This year, the Corporation has combined the 'Loss on disposal' into Expenses excluding finance costs. The value of 'Loss on disposal' in the prior year was \$6.9 million.

3. The Corporation has reclassified Note 7 Trade and other receivables. Unread meters is now separately identified in this year's accounts. In the prior year, Unread meters of \$291.7 million was included in 'Trade receivables'.

(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 2010*.

(d) 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. These accounting policies have been consistently applied.

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.

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.

Asset definition

Ausgrid'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 Ausgrid's network, components cannot be readily sold to third parties for different uses.

Network asset valuation

Ausgrid has elected to use the option under Treasury Circular NSWTC 12/05 *Fair Value of Specialised Physical Assets* and AASB 116 *Property, Plant and Equipment* to measure assets using the income approach. Ausgrid's view is that the income approach reflects the nature of the current regulatory regime. The allowed revenue from the regulator is consistent with the principles of valuing specialised assets under the income approach.

Employee benefits provision

A 3.5% expected salary increase rate has been assumed for the purposes of actuarial valuations. However, the NSW Government Wages Policy requires that any salary increases above 2.5% would be offset by appropriate productivity savings made by the corporation.

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

(e) 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. All entities are incorporated in Australia. Ausgrid Pty Ltd did not trade during the year. Consolidated financial statements are not required to be presented for 30 June 2013 due to immateriality in accordance with AASB127 *Consolidated Financial Statements* paragraph 1.4. The net results of this controlled entity are a loss of \$1,190 and net assets of \$5,034.

(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 18 for details).

(f) 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 the Statement of Profit or 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.

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

Tax consolidation

The Corporation and its wholly-owned Australian resident entity have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Ausgrid. 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 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 subsidiaries is assumed by the head entity in 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 Corporation 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.

Tax funding arrangements

The head entity, 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 head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) 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.

Notes to the financial statements

For the year ended 30 June 2013

(g) Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, the amount of revenue can be reliably measured, and it is probable that the future economic benefits will flow to the entity.

(i) Network use of system revenue

Ausgrid recognises revenue involving the rendering of electricity supply services in the Statement of Comprehensive Income when the goods are provided or when the fee in respect of services provided is receivable. Network use of system income is recognised on an accrual basis as revenue is accrued for consumption which is not invoiced at month end. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or if the costs incurred or to be incurred can not 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 and 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) Contributions for capital works

This represents sums 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.

(v) 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 the Statement of Comprehensive Income 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 the Statement of Comprehensive Income in the same period in which the expenses are incurred.

(vi) Other revenue

Other revenue consists of revenue from 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.

(h) 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.

(i) 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 payments.

(j) 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.

(k) 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.

(l) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are initially recognised at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

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 07-1 *Valuation of Physical Non-Current Assets at Fair Value* and AASB 116 *Property, Plant and Equipment*, 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. Fair value is best represented as current market price, however where this cannot be observed, an asset's fair value is measured at either depreciated replacement cost or an income approach in accordance with AASB 116 *Property, Plant and Equipment*. Treasury Circular NSW TC12/05 *Fair Value of Specialised Physical Assets* also allows the option in AASB 116 *Property, Plant and Equipment* to measure specialised assets using either depreciated replacement cost or an income approach.

Ausgrid has undertaken a system asset revaluation based on the Income Approach which was booked as at 30 June 2013. The income approach 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 network 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 Weighted Average Cost of Capital (WACC);
- Other factors such as illiquidity that should be reflected in pricing future cash flows; and
- The regulated asset base (RAB) used as a proxy for the terminal value.

System assets are revalued at least every five years in accordance with TPP07-1. 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 flow. As at 30 June 2013, the net carrying amount of system assets did not differ materially to the discounted cash flow.

Non-system land and buildings

Non-system land and buildings are valued at fair value of the asset.

Non-system land and buildings were revalued during 2010/11 to reflect fair value in accordance with AASB 116 and the NSW Treasury Accounting Policy *Valuation of Physical Non-Current Assets at Fair Value* [TPP07-1]. Independent valuers, Preston Rowe Paterson NSW Pty Limited (PRP) were engaged to value these assets. The 2010/11 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 fair value which is equivalent to their depreciated historical costs (deemed to be fair value in accordance with NSW Treasury Accounting Policy *Valuation of Physical Non-Current Assets at Fair Value* [TPP07-1] as any difference is unlikely to be material).

(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.

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

(iii) Capitalisation policy

Non-system assets purchased below \$500 are expensed as acquired. All costs of assets constructed by Ausgrid (system assets) are capitalised. This includes the cost of materials, 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 (in accordance with AASB 116 *Property, Plant & Equipment*), a proportion of overhead allocated on the basis of labour hours, other costs directly attributable to bringing the asset to a working condition for intended use and capitalised borrowing costs (in accordance with AASB 123 *Borrowing Costs*).

(iv) 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 the Statement of Comprehensive Income as an expense as incurred.

(v) 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 the Statement of Comprehensive Income 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 the City South Cable Tunnel and City West Cable Tunnel.

The residual value, if significant, is reassessed annually.

(m) 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(n)(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.

Amortisation is charged to the Statement of Comprehensive Income 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 systematically tested for impairment at each statement of financial position date. Other intangible assets are amortised from the date they are available for use.

The estimated useful lives in the current and comparative periods are as follows:

- computer software 1 – 4 years

Notes to the financial statements

For the year ended 30 June 2013

(n) 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 balance 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 the Statement of Comprehensive Income, 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 CGU are allocated first to reduce the carrying amount of any goodwill (if any) allocated to CGU and then, to reduce the carrying amount of the other assets in the unit 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.

(o) 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.

(p) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to Ausgrid 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.

(q) 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 or loss.

Gains and losses are recognised in the Statement of Comprehensive Income 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.

(r) Financial instruments

(i) Foreign exchange contracts

Ausgrid enters into foreign exchange contracts for anticipated purchase commitments for the supply of parts and equipment which are denominated in foreign currencies. Where the instruments are not designated to hedging relationships, movements in the fair value of these instruments are recognised in the Statement of Comprehensive Income.

(ii) 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 is created for each contract that transfers the energy price risk back to EnergyAustralia. Derivative assets and liabilities for non-novated contracts are recognised in the Statement of Financial Position, with an offsetting asset and liability.

(iii) 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.

(s) Employee benefits

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

Liabilities for employee benefits for wages, salaries, annual leave, pre 93 sick leave and long service leave that are expected to be 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 31 December 2012. The actuary has used a full actuarial projection method, with future cash flows discounted to the present day using commonwealth government bond rates as a discount rate. The accrued portion of future benefits has been determined using the projected credit unit 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 14). 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.

(t) 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 yield at the statement of financial position date on government bonds that have maturity dates approximating to the terms of Ausgrid's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses 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).

Ausgrid has one employee who is a member of the defined benefit schemes of SASS, SANCS, 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 non-current liability to reflect the appropriate timing of the obligation.

(u) 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.

(v) 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.

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

(w) 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 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.

(x) Reserves

Asset revaluation reserve

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

(y) Finance costs

Finance costs are recognised as expenses in the Statement of Comprehensive Income 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 *Borrowing Costs*. 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 \$53.7 million (2012: \$38.6 million), and the capitalisation rate used to determine this amount was at a weighted average interest rate of 7.5% (2012: 8.9%).

(z) Leases

As lessee

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

Ausgrid has not entered into any 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 does have material leases of land with a term exceeding 50 years. The title of these leases has been retained and the aggregate fair value of the leased assets is negligible.

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.

Rentals received from the tenants during the year are recognised as income in the Statement of Comprehensive Income and the costs of repairs and maintenance incurred on these properties for the year are recognised as an expense in the Statement of Comprehensive Income.

(aa) Greenhouse legislation

Under various legislation described below, the Corporation surrendered certificates in 2012/13 to acquit obligations as at 31 December 2012 placed on it by the various Commonwealth and New South Wales 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 relate to energy purchase contracts that were not transferred as part of the electricity sales transaction on 1 March 2011. For the period commencing 1 July 2012, the following schemes apply:

Commonwealth

The 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.

(bb) 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.

(cc) 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 or loss.

(dd) 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 2013 reporting period.

Ausgrid 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 AASB 119 *Employee Benefits*, which becomes mandatory for the entity's 2014 financial statements and will have an impact on classification between interest expenses and other comprehensive income for defined benefit schemes. The amendments to AASB 119 require retrospective application. Based on initial estimates, when Ausgrid applies the amendments for the first time for the year ending 30 June 2014, the profit after income tax for the comparative period year ended 30 June 2013 would be reduced by \$23.7 million and the other comprehensive income after income tax for the said year would be increased by \$23.7 million.

- AASB 9 *Financial Instruments*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* [AASBs 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] and AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* [AASB 9, AASB 2010-7]
- AASB 9 (Revised), AASB 2010-7 and AASB 2012-6 are applicable to annual reporting periods beginning on or after 1 January 2015. Ausgrid has not elected to adopt this standard early. Ausgrid will apply these standards in the 2015/16 financial statements.
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132].
- AASB 13 and AASB 2011-8 are applicable to annual reporting periods beginning on or after 1 January 2013. Ausgrid has not elected to adopt this standard early. Ausgrid will apply these standards in the 2013/14 financial statements.
- AASB 119 *Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011-8 and Interpretation 14] and AASB 2011-11 *Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements*.
- AASB 119, AASB 2011-10 and AASB 2011-11 are applicable to annual reporting periods beginning on or after 1 January 2013. Ausgrid has not elected to adopt these standards early. Ausgrid will apply these standards in the 2013/14 financial statements.
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* [AASB 7 & AASB 132] and AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* [AASB 132].
- AASB 2012-2 and AASB 2012-3 are applicable to annual reporting periods beginning on or after 1 January 2013 and 1 January 2014 respectively. Ausgrid has not elected to adopt these standards early. Ausgrid will apply these standards in the 2013/14 (AASB 2012-2) and 2014/15 (AASB 2012-3) financial statements.

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

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

2 REVENUE	2013	2012
	\$M	\$M
Network use of system revenue	2 789.9	2 330.6
Transmission revenue	62.5	54.2
Public lighting system charge	44.1	42.4
Capital contributions	65.3	58.2
Interest Income	20.5	2.0
External / Recoverable / Contestable Works	129.3	90.5
Solar Bonus Rebate Scheme Recovery	53.7	62.9
Other	180.2	285.3
	3 345.5	2 926.1

3 EXPENSES

	Note	2013 \$M	2012 \$M
(a) Expenses excluding finance costs			
Expenses relating to operating activities:-			
Distribution of energy and other services		861.2	867.2
Employee benefits expense		263.4	410.8
Bad debts and impairment of trade receivables		0.2	(0.2)
Operating leases rental		29.9	31.3
External consultants		0.1	1.6
Superannuation expense (defined benefit plan) recognised in profit for the year	24(b)	12.1	16.1
Superannuation expense (defined contribution plan)		52.9	51.7
Total expenses relating to operating activities		1 219.8	1 378.5
Loss on disposal of fixed assets		21.2	6.9
Impairment on non-current assets		12.6	1.6
Depreciation of Property, Plant & Equipment			
– Buildings	10	15.0	15.0
– System assets	10	327.8	285.3
– Plant and equipment	10	63.9	61.4
Total depreciation		406.7	361.7
Amortisation of Intangible assets			
– Computer software	11	84.6	57.2
– Other	11	3.7	2.0
Total amortisation		88.3	59.2
Total expenses excluding finance costs		1 748.6	1 807.9
(b) Finance costs			
Interest and finance charges paid/payable		606.9	538.8
Unwinding of discount on provisions		1.3	0.8
Net realised (gains)/losses on interest futures		(10.6)	87.0
Net unrealised (gains)/losses on valuation of interest rate futures		-	(3.8)
Finance costs recognised in the Statement of Comprehensive Income		597.6	622.8
(c) Maintenance expenses			
Employee benefits expense		144.8	143.6
Contracted labour and other (non-employee related) expenses		131.7	145.2
		276.5	288.8

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

4 INCOME TAX EXPENSE	2013 \$M	2012 \$M
Recognised in the Statement of Comprehensive Income		
Current tax expense		
Current year	297.6	207.1
Adjustments for prior years	(6.9)	(1.7)
	290.7	205.4
Deferred tax expense		
Origination and reversal of temporary differences	2.4	(60.9)
Total income tax expense in Statement of Comprehensive Income	293.1	144.5
Numerical reconciliation between tax expense and pre-tax net profit		
Profit before tax	999.3	495.4
Income tax using the domestic corporation tax rate of 30% (2012: 30%)	299.8	148.6
Increase (Decrease) in income tax expense due to:		
– Reversal of stamp duty provision	-	(9.3)
– Other deductible expenses	0.2	6.9
– Under / (over) provided in prior years	(6.9)	(1.7)
Income tax expense on pre-tax net profit	293.1	144.5
Income tax recognised in other comprehensive income		
Items not to be reclassified subsequently to profit or loss:		
– Actuarial gains or losses on defined benefits superannuation	22.8	(61.9)
– Revaluation of property, plant and equipment	858.5	(5.2)
Income tax charged directly to Other Comprehensive Income	881.3	(67.1)

5 DEFERRED TAX ASSETS / LIABILITIES

	2013 \$M	2012 \$M
Recognised deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Unbilled NUOS revenue	49.2	-
Property, plant and equipment	1 436.9	593.4
Intangible assets	13.5	13.5
Employee benefits	(133.7)	(143.5)
Deferred government grants	(15.4)	(16.1)
Provisions	(63.8)	(59.6)
Other items	(81.2)	(108.6)
Tax (assets) / liabilities	1 205.5	279.1

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

	Balance 1 July 12 \$M	Adjustment for non-assessable revenue \$M	Recognised in profit or loss \$M	Recognised in other comprehensive income \$M	Balance 30 June 13 \$M
Movement in temporary differences during the year					
Unbilled NUOS revenue	-	43.5	5.7	-	49.2
Property, plant and equipment	593.4	-	(15.0)	858.5	1 436.9
Intangible assets	13.5	-	-	-	13.5
Employee benefits	(143.5)	(0.8)	10.6	-	(133.7)
Deferred government grants	(16.1)	-	0.7	-	(15.4)
Provisions	(59.6)	-	(4.2)	-	(63.8)
Other items	(108.6)	-	4.6	22.8	(81.2)
	279.1	42.7	2.4	881.3	1 205.5

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

	Balance 1 July 11	Recognised In profit or loss	Recognised in other comprehensive income	Balance 30 June 12
	\$M	\$M	\$M	\$M
Movement in temporary differences during the year				
Property, plant and equipment	607.3	(8.7)	(5.2)	593.4
Intangible assets	10.6	2.9	-	13.5
Employee benefits	(121.7)	(21.8)	-	(143.5)
Deferred government grants	(16.6)	0.5	-	(16.1)
Provisions	(41.8)	(17.8)	-	(59.6)
Other items	(30.7)	(16.0)	(61.9)	(108.6)
	407.1	(60.9)	(67.1)	279.1

Ausgrid treats certain income from network distribution services as being derived for income tax purposes in the years in which meters are read and related income is billed. This treatment is consistent with the treatment applied in the prior year tax return and reflects consideration of expert advice and relevant taxation case law. This treatment has resulted in the recognition of a deferred tax liability of \$49.2 million as at 30 June 2013 (2012: nil).

It is noted that the Australian Taxation Office (ATO) has issued interpretive decision ATO ID 2012/15 Derivation of Income: Unbilled Supply of Energy. This document is an edited and summarised record of a decision made in respect of another taxpayer and relates to the retailing of electricity and gas to consumers. The ATO concluded that the taxpayer derived assessable income at the time of the supply of electrical and gas energy to certain customers.

Given that the interpretive decision relates to energy retailers, Ausgrid does not believe that the conclusions reached are directly relevant to the determination of when that income is derived for income tax purposes in relation to its network distribution services. This view has been further affirmed by external tax advise.

6 CASH AND CASH EQUIVALENTS

	2013	2012
	\$M	\$M
Cash on hand	0.1	0.1
Bank balances and term deposits	71.9	199.1
Money market securities and deposits	9.4	47.2
Cash and cash equivalents	81.4	246.4

7 TRADE AND OTHER RECEIVABLES	2013 \$M	2012 \$M
Current		
Trade receivables	272.4	154.1
Less: impairment of trade receivables	(1.9)	(2.2)
Unread meters	342.2	291.7
	612.7	443.6
Prepayments	24.8	26.4
Accrued sales of energy	-	5.8
	637.5	475.8
The movement in the impairment of trade receivables is detailed below:		
Opening balance at 1 July	(2.2)	(4.8)
- additional provisions	(1.0)	(0.5)
- amounts used	0.3	2.8
- amounts reversed	1.0	0.3
Closing balance at 30 June	(1.9)	(2.2)

8 DERIVATIVE FINANCIAL INSTRUMENTS	2013 \$M	2012 \$M
Derivative financial assets – current		
Energy derivatives non-novated	82.1	69.2
Derivative financial assets – non-current		
Energy derivatives non-novated	-	0.1
Derivative financial liabilities – current		
Energy derivatives non-novated	82.1	69.2
Derivative financial liabilities – non-current		
Supply contract commitment	-	0.1

Ausgrid's exposure to credit, currency and interest rate risk related to derivatives is disclosed in note 16.

9 OTHER CURRENT ASSETS	2013 \$M	2012 \$M
Current		
Deferred costs – WIP on recoverable works	22.1	46.1
Greenhouse certificates – at cost	0.3	0.3
	22.4	46.4

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

10 PROPERTY, PLANT AND EQUIPMENT		Land and Buildings	System Assets	Other Assets	Total
	Note	\$M	\$M	\$M	\$M
At 1 July 2012 – fair value					
Gross carrying amount		630.3	13 237.6	588.2	14 456.1
Accumulated depreciation and impairment		(36.9)	(2 819.7)	(294.3)	(3 150.9)
Net carrying amount		593.4	10 417.9	293.9	11 305.2
At 30 June 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
Year ended 30 June 2013					
Net carrying amount at start of year		593.4	10 417.9	293.9	11 305.2
Additions		23.1	1 220.8	31.2	1 275.1
Disposals		(0.1)	(22.4)	(3.3)	(25.8)
Revaluation		-	2 872.0	-	2 872.0
Depreciation expense	3(a)	(15.0)	(327.8)	(63.9)	(406.7)
Impairment and other movements		-	(12.6)	(1.1)	(13.7)
Net carrying amount at end of year		601.4	14 147.9	256.8	15 006.1
At 1 July 2011 – fair value					
Gross carrying amount		589.3	11 633.4	551.3	12 774.0
Accumulated depreciation and impairment		(22.0)	(2 546.3)	(256.0)	(2 824.3)
Net carrying amount		567.3	9 087.1	295.3	9 949.7
At 30 June 2012 – fair value					
Gross carrying amount		630.3	13 237.6	588.2	14 456.1
Accumulated depreciation and impairment		(36.9)	(2 819.7)	(294.3)	(3 150.9)
Net carrying amount		593.4	10 417.9	293.9	11 305.2
Year ended 30 June 2012					
Net carrying amount at start of year		567.3	9 087.1	295.3	9 949.7
Additions		43.9	1 626.0	62.6	1 732.5
Disposals		(0.1)	(9.0)	(3.5)	(12.6)
Revaluation		(2.7)	-	-	(2.7)
Depreciation expense	3(a)	(15.0)	(285.3)	(61.4)	(361.7)
Other movements		-	(0.9)	0.9	-
Net carrying amount at end of year		593.4	10 417.9	293.9	11 305.2

Assets under construction

During the year ended 30 June 2013, Ausgrid continued with its Network Capital Program. At the statement of financial position date, the construction in progress totalled:

Land and buildings	\$16.6 million (2012: \$26.9 million)
System assets	\$1,825.4 million (2012: \$1,989.9 million)
Other assets	\$16.4 million (2012: \$33.8 million)

Historic cost of revalued assets

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

Land and buildings	\$516.4 million (2012: \$504.6 million)
System assets	\$10,696.4 million (2012: \$9,785.3 million)

11 INTANGIBLE ASSETS		Easements	Computer Software	Other	Total
Note	\$M	\$M	\$M	\$M	\$M
At 1 July 2012					
At cost	98.7	451.1	10.0	559.8	
Accumulated amortisation and impairment	-	(287.5)	(4.0)	(291.5)	
Net carrying amount	98.7	163.6	6.0	268.3	
At 30 June 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	
Year ended 30 June 2013					
Net carrying amount at start of year	98.7	163.6	6.0	268.3	
Acquisitions	5.2	109.5	1.9	116.6	
Amortisation	-	(84.6)	(3.7)	(88.3)	
Impairment loss	-	(0.9)	-	(0.9)	
Other movement	-	0.7	-	0.7	
Net carrying amount at end of year	103.9	188.3	4.2	296.4	
At 1 July 2011					
At cost	94.2	405.8	10.0	510.0	
Accumulated amortisation and impairment	-	(238.9)	(2.0)	(240.9)	
Net carrying amount	94.2	166.9	8.0	269.1	
At 30 June 2012					
At cost	98.7	451.1	10.0	559.8	
Accumulated amortisation and impairment	-	(287.5)	(4.0)	(291.5)	
Net carrying amount	98.7	163.6	6.0	268.3	
Year ended 30 June 2012					
Net carrying amount at start of year	94.2	166.9	8.0	269.1	
Acquisitions	4.5	53.9	-	58.4	
Amortisation	3(a)	(57.2)	(2.0)	(59.2)	
Net carrying amount at end of year	98.7	163.6	6.0	268.3	

Intangible assets under construction

During the year ended 30 June 2013, Ausgrid continued with its Capital Program. At the statement of financial position date, the construction in progress totalled:

Computer software	\$65.5 million (2012: \$39.5 million)
Easements	\$0.6 million (2012: \$0.0 million)

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

12 TRADE AND OTHER PAYABLES	2013	2012
	\$M	\$M
Trade payables	126.2	169.4
Interest payable	293.7	252.5
Accruals	26.4	28.5
Other payables	49.6	35.6
	495.9	486.0

13 BORROWINGS

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings. For more information about Ausgrid's exposure to interest rate and foreign currency risks, see Note 16.

	2013	2012
	\$M	\$M
Current liabilities		
Current portion of loans	-	474.4
Non-current liabilities		
Non-current portion of loans	8 502.6	7 707.6
Financing facilities		
The Corporation has access to the following lines of credit:		
Total facilities available		
Bank overdraft ⁽¹⁾	2.0	2.0
TCorp short term accommodation	450.0	450.0
TCorp loans	9 250.0	8 450.0
	9 702.0	8 902.0
Facilities utilised at reporting date		
Bank overdraft ⁽²⁾	-	-
TCorp short term accommodation ⁽³⁾	-	-
TCorp loans ⁽³⁾	8 502.6	8 182.0
	8 502.6	8 182.0
Facilities not utilised at reporting date		
Bank overdraft	2.0	2.0
TCorp short term accommodation	450.0	450.0
TCorp loans	747.4	268.0
	1 199.4	720.0

⁽¹⁾ Represents the bank overdraft limit in relation to any debit balances of the daily bank statements.

⁽²⁾ The bank statement balance at reporting date was \$4.8 million credit (2012: \$50.0 million credit).

	2013	2012
	%	%
(3) Effective interest rates:		
TCorp short term accommodation	2.9	3.6
TCorp loans – AUD fixed rate	5.8	5.9
TCorp loans – AUD floating rate	2.9	3.7
TCorp loans – AUD Inflation indexed	4.7	5.6

Financing arrangements

Bank overdrafts

Interest on bank overdrafts is charged at prevailing market rates plus an additional 5.1% on any balance in excess of the approved overdraft on Ausgrid's Limit Facility of \$2 million.

The total bank overdraft of Ausgrid is unsecured. The bank overdrafts are payable on demand and are subject to annual review.

TCorp short term accommodation

Ausgrid has approval under the *Public Authorities (Financial Arrangements) Act 1987* ("PAFA Act") to obtain a \$450.0 million short term accommodation (Come-and-Go facility) from TCorp.

Interest on T-Corp short term accommodation is charged at prevailing market rates.

TCorp loans

Ausgrid has approval under the *Public Authorities (Financial Arrangements) Act 1987* to obtain \$9,250 million (2012: \$8,450 million) of loan funds from TCorp.

The loans amount in current liabilities includes the portion of Ausgrid's TCorp loans payable within one year is nil. (2012: \$474.4 million).

The non-current TCorp loans are payable on or before 15 April 2039, with maturity dates ranging between 2 and 26 years from reporting date.

All TCorp debt is fully payable on maturity with the majority being fixed rate loans.

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

14 PROVISIONS	Insurance	Dividends	Employee Benefits	Restructuring	Other	Total
	\$M	\$M	\$M	\$M	\$M	\$M
Opening Balance at 1 July, 2012	24.2	239.9	891.0	13.2	82.3	1 250.6
- additional provisions	6.7	462.6	185.5	42.2	19.1	716.1
- amounts used	(7.0)	(239.9)	(259.4)	(0.8)	(12.1)	(519.2)
- amounts reversed	(3.3)	-	(49.7)	(12.4)	(4.2)	(69.6)
Closing Balance at 30 June, 2013	20.6	462.6	767.4	42.2	85.1	1 377.9
Current	3.1	462.6	403.4	42.2	42.4	953.7
Non-current	17.5	-	364.0	-	42.7	424.2
Balance at 30 June 2013	20.6	462.6	767.4	42.2	85.1	1 377.9
Current	4.3	239.9	493.1	13.2	45.0	795.5
Non-current	19.9	-	397.9	-	37.3	455.1
Balance at 30 June 2012	24.2	239.9	891.0	13.2	82.3	1 250.6

(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 2012/13, a consulting actuary undertook the annual investigation of Ausgrid's estimated liability for workers' compensation as at 30 June 2013. The liability is measured as the present value of future payments at 30 June 2013 and was estimated to be \$18.6 million (2012: \$22.2 million). This includes the liability for dust related diseases which is estimated at \$10.0 million (2012: \$10.4 million).

(ii) Dividends

Provision is made for the amount of any dividend and other payments determined by the Directors on or before the end of the financial year but not distributed at balance date. The dividend has regard to the annual performance agreement (Statement of Corporate Intent) with NSW Treasury.

The current year dividend payable of \$462.6 million is based on the government's dividend cap policy for the energy sector of State Owned Corporations and negotiations between NSW Treasury on behalf of the shareholders and Ausgrid prior to 30 June 2013. The prior year dividend payable of \$239.9 million was calculated in accordance with TPP09-6 *Financial Distribution Policy for Government Businesses*, which is based on 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 93 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(s). All other employee benefit amounts have been calculated at nominal amounts based on expected settlement rates.

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes \$262 million (2012: \$310.3 million) of long service leave entitlements accrued but not expected to be taken within 12 months.

(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 agreed individual employee redundancies at 30 June 2013 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 will be redundant at the end of the TSA. The Australian Taxation Office approved the Program on 3 July.

(v) Other**Provision for site remediation**

A provision for site remediation was created in 2001/02 to cover all asbestos remediation costs to be incurred during subsequent years. An additional provision to cover all contaminated land remediation costs to be incurred in subsequent years was made in 2009/10.

The provision as at 30 June 2013 was estimated to be \$10.6 million (2012: \$10.4 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 2013 was estimated to be \$44.1 million (2012: \$35.6 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(u). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

Provision for costs relating to the Retail Sale

A provision for costs relating to the Retail Sale was created in 2010/11 to cover expected future costs incurred during subsequent years. The provision as at 30 June 2013 was estimated to be \$11.3 million (2012: \$23.3 million)

Provision for costs relating to decommissioning assets

A provision was created in 2010/11 to cover the expected future costs associated with decommissioning Ausgrid's system assets. The provision as at 30 June 2013 was estimated to be \$16.5 million (2012: \$14.8 million).

15 OTHER LIABILITIES	2013	2012
	\$M	\$M
Current		
Deposits	2.7	3.0
Deferred revenue	26.3	43.4
	29.0	46.4
Non Current		
Deposits	6.7	8.8

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

16 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 by approving an annual Debt Funding Strategy paper and receiving regular updates.

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.

Exposure to credit, interest rate, energy price, foreign currency and liquidity risks arises in the normal course of Ausgrid's business. Derivative financial instruments are used to trade and hedge exposure to fluctuations in foreign exchange rates, commodities, interest rates and energy prices. These derivative financial instruments are not held for speculative or trading purposes, however there are some derivatives that do not qualify for hedge accounting and are accounted for as trading instruments.

(b) Credit risk

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

The credit risk related to trade and other receivables has been recognised in the Statement of Financial Position, and reflected in 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 and all 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 2013 is detailed below:

	2013 \$M	2012 \$M
Less than 3 months overdue	10.7	5.4
3 months to 6 months overdue	1.4	0.6
Later than 6 months overdue	5.3	5.8
	17.4	11.8

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.

At balance date, there are no direct credit exposure resulting from energy derivatives, excluding realised gains and losses not yet settled (2012: \$17.5 million).

The maximum credit exposure resulting from energy derivatives, excluding realised gains and losses not yet settled to EnergyAustralia is \$82.1 million. These derivatives comprise the residual element of a larger portfolio of contracts that have been sold to, and are effectively held for EnergyAustralia (formerly TRUenergy) pending their formal novation.

(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 \$A 500,000 in value.

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

The net fair value of forward exchange contracts used as hedges of forecasted transactions at 30 June 2013 was nil (2012: nil), comprising assets of nil (2012: \$1.1 million) and liabilities of nil (2012: \$1.1 million) that were recognised in fair value derivatives.

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 nor value of equity.

(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 approved duration ranges and debt maturity profiles. Interest rate risk is managed through a combination of fixed rate long 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	2013 \$M	2012 \$M
Fixed rate		
Financial liabilities	(6 844.2)	(6 794.9)
Floating rate / Inflation Indexed		
Financial assets	81.4	246.4
Financial liabilities	(1 658.4)	(1 387.1)
	(1 577.0)	(1 140.7)

Ausgrid does not account for any fixed rate financial assets and liabilities at fair value through profit or 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 no material impact on Ausgrid's profit before tax (2012: 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 and TCorp short term accommodation less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Statement of Financial Position plus net debt.

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

	2013 \$M	2012 \$M
Total loans	8 502.6	8 182.0
Less: cash and cash equivalents	(81.4)	(246.4)
Net debt	8 421.2	7 935.6
Total equity	4 190.5	1 889.1
Total capital	12 611.7	9 824.7
Gearing ratio	66.8%	80.8%

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 2013. Non-novated contracts held in Ausgrid's name are matched to an equal and opposite position with EnergyAustralia. Ausgrid does not derive any benefit associated with cash flow but still bears residual legal and credit risks until the contract is novated or expired.

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) Fair values

(i) Valuation techniques and assumptions applied for the purposes of measuring fair value

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

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 balance date. The discount rates used were sourced from a zero coupon yield curve constructed by an independent content provider.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Trade and other receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Foreign exchange contracts

The net fair value of foreign exchange contracts is calculated by reference to the current spot and forward market currency exchange rates.

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.

(ii) Fair values versus carrying amount

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

	Note	2013		2012	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		\$M	\$M	\$M	\$M
Financial instruments					
Financial assets carried at amortised cost					
Cash and cash equivalents	6	81.4	81.4	246.4	246.4
Trade and other receivables	7	637.5	637.5	475.8	475.8
		718.9	718.9	722.2	722.2
Financial assets carried at fair value					
Energy derivatives	8	82.1	82.1	69.3	69.3
		82.1	82.1	69.3	69.3
Financial liabilities carried at amortised cost					
Borrowings	13	8 502.6	9 144.3	8 182.0	9 075.5
Trade and other payables		447.0	447.0	450.9	450.9
Deposits	15	9.4	9.4	11.8	11.8
Deferred government grants		98.7	98.7	123.2	123.2
		9 057.7	9 699.4	8 767.9	9 661.4
Financial liabilities carried at fair value					
Energy derivatives	8	82.1	82.1	69.2	69.2
Supply contract commitment	8	0.0	0.0	0.1	0.1
		82.1	82.1	69.3	69.3

(iii) Interest rates used for determining fair value

The entity uses the government yield curve as at 30 June 2013 plus an adequate constant credit spread to discount financial instruments.

The interest rates used are as follows:

	2013	2012
Loans and borrowings	2.6% – 5.0%	3.7% – 4.4%

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

(iv) Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable input).

	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
2013				
Financial assets at fair value through profit or loss				
Energy derivatives	-	0.3	81.8	82.1
Financial liabilities at fair value through profit and loss				
Energy derivatives	-	(0.3)	(81.8)	(82.1)
2012				
Financial assets at fair value through profit or loss				
Energy derivatives	-	3.3	66.0	69.3
Financial liabilities at fair value through profit and loss				
Energy derivatives	-	3.3	65.9	69.2
Supply contract commitment	-	-	0.1	0.1
	-	3.3	66.0	69.3

Reconciliation of Level 3 fair value measurements of financial instruments

	Financial assets		Financial liabilities		
	Fair value through profit or loss		Fair value through profit or loss		
	Energy derivatives	Total	Energy derivatives	Supply contract commitment	Total
	\$M	\$M	\$M	\$M	\$M
Balance at 1 July 2012	66.0	66.0	(65.9)	(0.1)	(66.0)
Total gains or losses:					
- in profit or loss	15.8	15.8	(15.9)	0.1	(15.8)
- in other comprehensive income	-	-	-	-	-
New contracts during the period	-	-	-	-	-
Contracts expired during the period	-	-	-	-	-
Balance at 30 June 2013	81.8	81.8	(81.8)	0.0	(81.8)
Total gains or losses for the year included in profit or loss for assets held at 30 June 2013	15.8	15.8	(15.9)	0.1	(15.8)

Reconciliation of Level 3 fair value measurements of financial instruments

	Financial assets		Financial liabilities		
	Fair value through profit or loss		Fair value through profit or loss		
	Energy derivatives	Total	Energy derivatives	Supply contract commitment	Total
	\$M	\$M	\$M	\$M	\$M
Balance at 1 July 2011	18.2	18.2	(11.3)	(6.9)	(18.2)
Total gains or losses:					
- in profit or loss	(3.5)	(3.5)	(3.3)	6.8	3.5
- in other comprehensive income	-	-	-	-	-
New contracts during the period	-	-	-	-	-
Contracts expired during the period	-	-	-	-	-
Transfers into level 3	51.3	51.3	(51.3)	-	(51.3)
Transfers out of level 3	-	-	-	-	-
Balance at 30 June 2012	66.0	66.0	(65.9)	(0.1)	(66.0)
Total gains or losses for the year included in profit or loss for assets held at 30 June 2012	110.0	110.0	(116.8)	6.8	(110.0)

Electricity derivative contracts with fair value of \$51.3 million at the end of the reporting period have been transferred into Level 3 because the valuation technique includes broker quotes in a market that has been considered illiquid (unobservable inputs).

Given that all Ausgrid's electricity derivatives have equal and offsetting positions, there is no impact on the Statement of Comprehensive Income if any underlying assumptions are changed.

(h) 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(h), 1(q), 6 and 13).

While current liabilities are greater than current assets as at 30 June 2013 the Corporation continues to trade as a going concern. It is noted that the Corporation derives revenue from non-current assets. Please refer to financing facilities and financing arrangement of Note 13 Borrowings for further details.

Ausgrid's policy established prudential limits on the amount of debt that can mature within set periods. The policy sets out that not more than 20% of its borrowings should mature within the first 12 months and no more than 20% in any individual benchmark or preferred line with a maturity greater than 12 months. At 30 June 2013, none of the Corporation's debt will mature in less than one year (2012: 5.8%). During the current and prior years, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. The Corporation's exposure is deemed insignificant based on prior periods data and current assessment of risk.

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

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

	Carrying amount \$M	Total contractual cash flows total \$M	1 year or less \$M	1–5 years \$M	More than 5 years \$M
30 June 2013					
Derivative financial liabilities					
Energy derivatives	(82.1)	(101.5)	(69.6)	(29.1)	(2.8)
	(82.1)	(101.5)	(69.6)	(29.1)	(2.8)
Non derivative financial liabilities					
AUD fixed rate loans	6 844.2	9 371.8	395.4	4 398.3	4 578.1
AUD floating rate loans	-	-	-	-	-
AUD inflation indexed loans	1 658.4	2 423.4	42.4	122.6	2 258.4
Trade and other payables	447.0	447.0	447.0	-	-
	8 949.6	12 242.2	884.8	4 520.9	6 836.5
30 June 2012					
Derivative financial liabilities					
Energy derivatives	69.2	69.2	45.5	23.7	-
Supply contract commitment	0.1	0.1	0.1	-	-
	69.3	69.3	45.6	23.7	-
Non derivative financial liabilities					
AUD fixed rate loans	6 794.9	9 536.3	720.3	3 585.5	5 230.5
AUD floating rate loans	149.0	168.3	168.3	-	-
AUD Inflation indexed loans	1 238.1	2 005.5	53.8	119.2	1 832.5
Trade and other payables	450.9	450.9	450.9	-	-
	8 632.9	12 161.0	1 393.3	3 704.7	7 063.0

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.

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 settlement. 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 cashflows are offset either against contra cashflows with either the original counterparty or EnergyAustralia.

	Carrying amount \$M	Total contractual cashflows \$M	1 year or less \$M	1–5 years \$M	More than 5 years \$M
30 June 2013					
Derivative Financial Liabilities					
Net settled:					
- energy derivatives	(29.3)	(47.7)	(29.0)	(15.9)	(2.8)
- cashflows offset ^	29.3	47.7	29.0	15.9	2.8
	-	-	-	-	-
Gross settled:					
- energy derivatives	(52.8)	(79.2)	(58.4)	(20.8)	-
- cashflows offset ^	52.8	79.2	58.4	20.8	-
	-	-	-	-	-
30 June 2012					
Derivative Financial Liabilities					
Net settled:					
- energy derivatives	(0.4)	(0.5)	(0.2)	(0.3)	-
- cashflows offset ^	0.4	0.5	0.2	0.3	-
	-	-	-	-	-
Gross settled:					
- energy derivatives	(51.3)	(161.9)	(84.0)	(77.9)	-
- cashflows offset ^	51.3	161.9	84.0	77.9	-
- foreign exchange contracts	1.1	1.2	1.2	-	-
	1.1	1.2	1.2	-	-

^ cashflows available under offset arrangements with EnergyAustralia

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

17 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) [appointed 1 July 2012]

Dr Peter Dodd [reappointed from 1 July 2012]

Ms Penny Le Couteur [appointed 1 July 2012 – 30 June 2013] – term expired and did not seek a further term.

Ms Barbara Ward [appointed 1 July 2012 – 31 December 2012] – term expired and did not seek a further term.

Ms Laura Reed [appointed 1 January 2013]

Mr Phil Garling [appointed 1 January 2013]

Mr Vince Graham (Chief Executive Officer) [appointed 1 January 2013]

Key management personnel remunerations

In addition to their salaries, Ausgrid also provides post employment benefits to key management personnel (see Notes 1(s) and 1(t)).

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:

	2013 \$M	2012 \$M
Short-term employee benefits	4.7	5.2
Long-term benefits	2.3	1.9
Post-employment benefits	0.3	2.4
Termination benefits	0.8	0.9
Total	8.1	10.4

18 RELATED PARTIES TRANSACTIONS

(i) Networks NSW structure

On 1 July 2012, the Networks NSW (NNSW) operating model commenced with Endeavour Energy, Ausgrid and Essential Energy (DNSPs) having separate Boards with common Directors, a common Chairman and common Chief Executive Officer (CEO). A Group Management structure is being implemented to assist the Board and the CEO in undertaking reform of the industry consistent with the objectives of NSW Government policy and in line with the Umbrella Cooperation Agreement (UCA).

NNSW is not a legal entity and the personnel and associated costs of the NNSW group management have been captured by the individual DNSPs and equitably shared between the three DNSPs. The Umbrella Cooperation Agreement facilitates the management and cooperation of NNSW and each of the DNSPs. It enables the DNSPs to identify and implement reform measures and realise and share the initiatives through acting collectively and co-operatively.

Subsequent to 30 June 2013 the Energy Services Corporations Amendment (Distributor Efficiency) Legislation was passed. The amendment legislation provided for the appointment of a single board of directors that is to be the board of each of the energy distributors (Ausgrid, Endeavour Energy and Essential Energy) to act in the best interests of energy distributors as if they formed part of a combined operation. The legislation was proclaimed on 27 August 2013.

(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 during the year. In accordance with the Board Charter and company Code of Conduct, Directors' have declared any potential conflicts of interest in matters discussed at the meetings.

(iv) Subsidiary

During the year ended 30 June 2013, Ausgrid provided funding to its subsidiary to enable it to meet its commitments but did not receive any repayments from it. It is expected to wind up the subsidiary within the next financial year. Loans outstanding between Ausgrid and its subsidiary have no fixed date of repayment and are non-interest bearing. There were no loans (net) to the subsidiary at 30 June 2013 (2012: 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

No services were provided to Ausgrid by the subsidiary.

Ausgrid has also provided the necessary cash facilities for the subsidiary, with respect to external transactions which were not settled by the subsidiary.

19 REMUNERATION OF AUDITOR

	2013 \$M	2012 \$M
Amounts paid and payable to the Audit Office of New South Wales		
Audit of the Financial Statements	0.4	0.4
Audit for Regulatory Return	0.1	0.1
	0.5	0.5

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

20 CONTINGENT LIABILITIES AND CONTINGENT ASSETS	2013 \$M	2012 \$M
Contingent liabilities		
Guarantees provided to regulatory and statutory authorities	18.1	54.2
Contingent assets		
Potential recoveries from gross workers compensation claim payments	2.1	3.3

21 CAPITAL COMMITMENTS	2013 \$M	2012 \$M
Capital commitments		
Commitments for the acquisition of assets, plant and equipment contracted for at the reporting date but not recognised as liabilities, payable (including GST)	359.4	528.6
GST credits	32.7	48.1

22 OPERATING LEASES	2013 \$M	2012 \$M
Leases as lessee		
Non-cancellable operating leases are payable as follows:		
Within twelve months	22.7	31.4
Twelve months or longer and not longer than five years	21.5	37.4
Longer than five years	110.0	106.9
Total (including GST)	154.2	175.7
GST credits	14.0	16.0

Ausgrid leases various premises under operating leases including depot and office facilities, and a number of offices at interstate locations. The Corporation also has a long term operating lease arrangement in place for a Zone Substation installation at Strathfield which expires in 2065. Lease payments under these leases are subject to annual, bi-annual or three yearly reviews to reflect market rentals. The majority of these operating leases which are in place for the purpose of securing tenure to Ausgrid's Network Infrastructure assets are long term (generally for periods in excess of 25 years and up to 99 years) and are for a nominal or "peppercorn" consideration. 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.

	2013 \$M	2012 \$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	7.0	6.4
Twelve months or longer and not longer than five years	12.5	12.3
Longer than five years ⁽⁵⁾	7.6	7.7
Total (including GST)	27.1	26.4
GST debits	2.5	2.4

⁽⁵⁾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.

During the year ended 30 June 2013, \$6.5 million (2012: \$5.5 million) was recognised as rental income in the Statement of Comprehensive Income and \$1.4 million (2012: \$1.2 million) in respect of repairs and maintenance was recognised as an expense in the Statement of Comprehensive Income relating to these properties.

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

23 RECONCILIATION OF CASHFLOWS FROM OPERATING ACTIVITIES	2013 \$M	2012 \$M
Profit for the year	706.2	350.9
Add / (less) non-cash items:		
Depreciation and amortisation	495.0	420.9
Amortisation of unrealised capital (debt)	1.6	4.8
Amortisation of deferred government grants	(1.6)	(1.6)
Impairment of trade receivables	(0.3)	(2.6)
Loss on disposal of property, plant and equipment	21.2	6.9
Impairment of non-current assets	12.6	1.6
(Profit)/loss on disposal of other non-current assets	(0.8)	0.5
Profit on close out liability contracts	1.9	(2.9)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	(163.0)	65.4
(Increase)/decrease in operating related inventories	2.2	(6.9)
Decrease in prepaid operating expenditure	25.6	22.0
Decrease in accrued operating expenditure	(58.0)	(298.6)
Increase/(decrease) in provision for income taxes payable	59.1	(48.8)
Increase/(decrease) in net deferred tax liabilities	64.8	(128.0)
Increase in other provisions	(95.3)	229.0
Increase/(decrease) in deferred revenue	(17.1)	6.0
Decrease in customer security deposits	(2.4)	(0.4)
Net cash from operating activities	1 051.7	618.2

24 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) General description of the type of plan

The Energy Industries Superannuation Scheme:

- Division B
- Division C
- Division D

These Divisions are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Divisions are closed to new members.

(b) Summary of financial information

The following tables summarise the components of net benefit expenses 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.

	Note	2013 \$M	2012 \$M
Reconciliation of the assets and liabilities recognised in the statement of financial position			
Present value of defined benefit obligations at end of the year		995.9	997.3
Fair value of Fund assets at end of the year		(729.5)	(632.9)
Net liability/(asset) recognised in the statement of financial position at end of the year		266.4	364.4
Reconciliation of the present value of the defined benefit obligation			
Present value of defined benefit obligations at 1 July		997.4	844.5
Current service cost		23.1	20.7
Interest cost		39.4	48.7
Contributions by Fund participants		8.6	8.8
Actuarial (gains)/losses in other comprehensive income		(29.7)	146.1
Benefits paid		(42.9)	(71.4)
Present value of defined benefit obligations at 30 June		995.9	997.4
Reconciliation of the fair value of Fund assets			
Fair value of Fund assets at 1 July		632.9	668.0
Expected return on Fund assets		50.4	53.3
Actuarial gains/(losses) in other comprehensive income		46.4	(60.1)
Employer contributions		34.1	34.3
Contribution by Fund participants		8.6	8.8
Benefits paid		(42.9)	(71.4)
Fair value of Fund assets at 30 June		729.5	632.9
Expense recognised in profit or loss			
Current service cost		23.1	20.7
Interest cost		39.4	48.7
Expected return on Fund assets (net of expenses)		(50.4)	(53.3)
Expense/(income) recognised	3	12.1	16.1
Amounts recognised in other comprehensive income			
Cumulative amount at 1 July		399.6	193.4
Actuarial (gains)/losses recognised		(76.1)	206.2
Cumulative amount at 30 June		323.5	399.6

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

(c) Fund assets

The percentage invested in each asset class at the statement of financial position date (latest available):

	2013	2012
Australian equity	14%	-
International equity	22%	-
Property	7%	-
Infrastructure	9%	-
Alternatives	18%	-
Listed equities	-	65.1%
Private equity	1%	1.3%
Semi-liquids and absolute return (growth)	-	17.1%
Fixed Income	20%	12.1%
Cash	9%	1.7%
Unlisted property	-	2.6%

All Scheme assets are invested by the Trustees at arm's length through independent managers.

Expected rate of return on assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

	2013 \$M	2012 \$M
Actual return on Fund assets		
Actual return on Fund assets	96.8	(6.7)

(d) Valuation method and principal actuarial assumptions

(i) Valuation method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

(ii) Economic assumptions

	2013	2012
Expected salary increase rate (excluding promotional increases)	2.7% pa until 30/06/2014; 3.5% pa thereafter	4.0% for 2011-12 and 3.5% pa thereafter
Rate of CPI increase	2.5% pa	2.5% pa
Expected rate of return on assets	8.10%	8.10%
Discount rate	3.80%	3.06%

(e) Historical information

	2013 \$M	2012 \$M	2011 \$M	2010 \$M	2009 \$M
Present value of defined benefit obligation	995.9	997.3	844.5	801.6	701.8
Fair value of Fund assets	(729.5)	(632.9)	(668.0)	(597.6)	(524.6)
Deficit/(Surplus) in Fund	266.4	364.4	176.5	204.0	177.2
Experience adjustments – Fund liabilities	(29.7)	146.1	10.3	53.5	(7.8)
Experience adjustments – Fund assets	(46.4)	60.1	(18.6)	20.1	(160.2)

(f) Expected contributions

	2013	2012
Expected employer contributions to be paid in the next reporting period	28.5	29.1

(g) Funding arrangements for employer contributions

The following is a summary of the 30 June 2013 financial position of the Fund calculated in accordance with AAS 25 "Financial Reporting by Superannuation Plans".

(i) Surplus/deficit

	2013	2012
Accrued benefits	744.2	685.6
Net market value of Fund assets	(729.5)	(632.9)
Net (surplus)/deficit	14.7	52.7

(ii) Contribution recommendations

Recommended contribution rates for the entity are:

- Division B = 1.9 x member contributions
- Division C = 2.5% x salaries
- Division D = 1.64 x member contributions
- Plus additional contributions of \$13,857,000 pa

(iii) Funding method

The method used to determine the employer contribution recommendations was the *Aggregate Funding* method. The method adopted affects the timing of the cost to the employer.

Under the *Aggregate Funding* method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

Ausgrid

Notes to the financial statements

For the year ended 30 June 2013

(iv) Economic assumptions

The economic assumptions adopted were:

	Weighted-Average Assumptions
Expected rate of return on Scheme assets	7.0% pa
Expected salary increase rate	2.7% pa until 30/06/2014; 3.5% pa thereafter
Expected rate of CPI increase	2.5% pa

(v) 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.

25 EVENTS SUBSEQUENT TO BALANCE DATE

The financial statements of Ausgrid for the year ended 30 June 2013 were authorised for issue in accordance with a resolution of the Directors on 13 September 2013.

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

END OF AUDITED FINANCIAL STATEMENTS

Ausgrid

Statement by directors

For the year ended 30 June 2013

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 the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and, the *Public Finance and Audit Regulation 2010*, and Accounting Interpretations and give a true and fair view of the financial position of Ausgrid as at 30 June 2013 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.

Vincent Graham
Director
Sydney

13 September 2013

Roger Massy-Greene
Chairman

13 September 2013

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 2013, 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 2013, 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* (the PF&A Act) and the Public Finance and Audit Regulation 2010
- 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 the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the *State Owned Corporations Act 1989* and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In Note 1(b), the Directors also state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements' that the financial statements comply with International Financial Reporting Standards.

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 the 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 Corporation'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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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 has carried out its activities effectively, efficiently and economically
- about the effectiveness of its 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
Deputy Auditor General

17 September 2013
SYDNEY

Appendices

Annual report costs	75
Consultancies	75
Credit card certification	75
Disclosure of approved exemptions	75
Equal employment opportunity statistics	76
Executive changes and remuneration	76
Funds granted to non-government community organisations	79
Access to information – Government Information (Public Access) Act	80
Greenhouse gas emissions	82
Guaranteed customer service standards	83
Investment performance	83
Land disposal	83
Liability management performance	83
Network prices 2013/14	83
Overseas travel	83
Major works in progress 2012/13	84
Public Interest Disclosures Act	87
Research and development	87
Summary of legislative changes and judicial decisions	87
Waste Reduction and Purchasing Policy	88
Threatened species	88

Annual report costs

The total external cost for the production of this Annual Report was approximately \$15,880.50 excluding GST. Printed copies of the 2012/13 report are not available as Ausgrid works to minimise its impact on the environment. However, it is available at Ausgrid's website www.ausgrid.com.au.

Consultancies

Ausgrid engaged eight consultants for projects (less than \$50,000) totalling \$116,845 as detailed below.

Category	\$
Finance and accounting	\$45,000.00
Engineering	\$13,385.00
Management services	\$58,459.74
Total	\$116,844.74

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 NSWTC 11/15 Use of Purchasing Cards and Electronic Payment Methods Policy, issued in December 2011.

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> .
Consolidation of accounts – a parent must present consolidated financial statements under AASB 127.	TC13/02 Mandates of Option and Major Policy Decisions under Australian Accounting Standards	The Corporation is exempt from consolidation under AASB 127.Aus1.3.

#Reference

ARSBR – Annual Reports (Statutory Bodies) Regulation 2010

AASB – Australian Accounting Standard Board

Appendices (cont.)

Equal employment opportunity statistics

Trends in the representation of EEO groups

Representation	Benchmark/target	2011	2012	2013
Women	50%	14.0%	13.7%	13.5%
Aboriginal people and Torres Strait Islanders	2.6%	1.4%	1.2%	3.4%
People whose first language spoken as a child was not English	19.0%	16.1%	16.9%	14.1%
People with a disability	N/A	3.3%	3.8%	3.9%
People with a disability requiring work-related adjustment	1.5%	0.6%	1.2%	0.6%

Trends in the distribution of EEO groups

Representation	Benchmark/target	2011	2012	2013
Women	100	101	100	100
Aboriginal people and Torres Strait Islanders	100	68	79	52
People whose first language spoken as a child was not English	100	105	101	106
People with a disability	100	104	100	101
People with a disability requiring work-related adjustment	100	105	96	106

Note 1: A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels.

Note 2: The Distribution Index is not calculated where EEO group or non-EEO group numbers are less than 20.

Executive changes and remuneration

Changes to Ausgrid's Executive Officers

Ausgrid, Endeavour Energy and Essential Energy's operations were integrated into a single operating model called Networks NSW on 1 July 2012 as a result of the NSW Government's reform of the NSW electricity industry.

Under this operating model the Chairman, Board of Directors and Chief Executive Officers (CEO) at Ausgrid, Essential Energy and Endeavour Energy were replaced with a common Chairman, Directors and Chief Executive Officer.

On 1 July 2012, an interim management structure at Ausgrid was established as work commenced to integrate the three network businesses. Ausgrid's senior management team was finalised in October 2012. Changes are shown in the table over.

Executive remuneration

General principles for remuneration of Executive Officers

Ausgrid's remuneration strategies are designed to attract and retain Executive Officers who drive business performance and who consistently demonstrate high standards of behaviour consistent with Ausgrid's values and Code of Conduct. Remuneration recommendations for Group Executive Officers who report to the Chief Executive Officer are considered and approved by the Board. The Chief Executive Officer considers and approves those recommendations for Executives who report to the Chief Operating Officer.

Components of remuneration

Ausgrid Executive Officers are employed under performance-based, fixed term employment contracts. Total remuneration for Executive Officers consists of fixed remuneration, ie 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 Officer.

Fixed remuneration

As a condition of employment, fixed remuneration of Executive Officers is reviewed with any adjustments made from 1 July each year in-line with market trends and is based on rigorous performance assessments of each Executive Officer. In approving increases to the fixed remuneration of Executive Officers, the Board or the Chief Executive Officer considers the outcomes of these performance assessments, advice from external remuneration specialists on Executive salary trends and contemporary remuneration practices, movement in the consumer price index and NSW State Wages Policy.

On 24 April 2013, the Board approved an average 2.5 percent increase in the remuneration of Group Executive Officers, consistent with the NSW Government Wages Policy. Ausgrid's Chief Executive Officer subsequently approved, on average, the same increase for Executive Leadership Team members.

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 for each manager during the course of the year. The Board or the Chief Executive Officer as appropriate reviews these performance assessments and approves all annual performance payments to Executive Officers.

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.

Name	Position at 30 June 2013	Remuneration ^a	"At risk" payment ^b	2012–13 Performance criteria
V. Graham	CEO Ausgrid, Endeavour Energy and Essential Energy	Paid by Endeavour Energy	Paid by Endeavour Energy	See Endeavour Energy Annual Report
J. Hardwick	Group Executive Network Strategy	\$290,932	\$62,000	<ul style="list-style-type: none"> Effective leadership of capital prioritisation and evaluation for the next AER regulatory submission. Established the framework for Safety Management Systems and Network Fatal Risks mitigation program. Strong contribution to Network Reform Strategy in Network and Engineering functions. Reform of Fleet Management Strategy across Networks NSW.
L. Maffina	Company Secretary	\$295,000	\$36,000	<ul style="list-style-type: none"> Effectively established Board governance framework for the joint Boards. Driven timely delivery of Board and Board Committee papers for the three network businesses. Managed the co-ordinated insurance programs for the three network businesses.

a. excludes "at risk" payment.

b. "at risk" payments are based on 2012-13 performance against key criteria, approved by the Board in September 2013.

c. Vince Graham was appointment interim CEO for Ausgrid, Endeavour Energy and Essential Energy from 1 July to 31 December 2012. Following a competitive selection process he was appointed Chief Executive Officer on 1 January 2013 for all three NNSW businesses: Endeavour Energy, Ausgrid and Essential Energy. He is remunerated by Endeavour Energy.

d. John Hardwick was Ausgrid's Executive Manager – Operations Lower Hunter & Central Coast. Following a competitive selection process he was appointed Group Executive Network Strategy in October 2012. Remuneration is pro-rated.

e. Lisa Maffina was appointed Company Secretary (for Ausgrid, Endeavour Energy and Essential Energy) in October 2012. Prior to this date, she was the Ausgrid Corporate Secretary.

Network business Executive employed by Ausgrid

Name	Position at 30 June 2013	Remuneration ^a	"At risk" payment ^b	2012–13 Performance criteria
T.Armstrong^c	Chief Operating Officer	\$460,000	\$74,000	<ul style="list-style-type: none"> Year on year improvement in safety performance. Effective management of overtime reduction. Strong personal leadership of the new enterprise agreement. Controlled July 2013 network price increase to CPI.
P.Henderson^d	Chief Engineer	\$195,589	\$41,267	<ul style="list-style-type: none"> Delivered scorecard targets. Significant personal contribution to the implementation of NECF. Lead significant changes in the operating model for Engineering.
B.Hooper^e	General Manager Network Development	\$330,000	\$46,163	<ul style="list-style-type: none"> Delivered scorecard targets. Contribution in the improvement of safety for our contractors. Cost reductions achieved in the capital program. Significant contribution in the development of the new operating model including the establishment of program management office.
J.Pizzinga^f	General Manager Finance and Compliance	\$312,431	\$58,335	<ul style="list-style-type: none"> Delivered accounting harmonisation with Networks NSW. Significant personal contribution to the introduction of a new risk and compliance framework. Continuing leadership of the Transition Service Agreement with EnergyAustralia.

Appendices (cont.)

Name	Position at 30 June 2013	Remuneration ^a	"At risk" payment ^b	2012–13 Performance criteria
P.York ^g	General Manager Health, Safety & Environment	\$179,014	\$25,714	<ul style="list-style-type: none"> Personal leadership in the retaining of Ausgrid's self insurance. Delivered year on year safety performance improvements. Implemented a new Incident Investigation Framework.
S.Kennedy ^h	General Manager IC&T	\$277,816	\$34,140	<ul style="list-style-type: none"> Delivered scorecard targets. The establishment of off-shoring of IT contracts. The establishment of an information security leadership group.
J.Mills ⁱ	General Manager People & Services	\$340,001	\$55,250	<ul style="list-style-type: none"> Exceeded all scorecard targets. Establishment of new human resources operating model. Contributed to the establishment of the 2012 Enterprise Agreement.
D. Pengilly ^j	General Manager Network Operations	\$345,000	\$48,262	<ul style="list-style-type: none"> Delivered all scorecard targets. Personal contribution to cultural change in safety leadership. Improvements achieved in reliability and cost reductions in the operating programs.

a. excludes "at risk" payment

b "at risk" payments are based on 2012-13 performance against key criteria, and approved by the Board in September 2013.

c. appointed Interim COO on 1 July to 14 October 2012. Following a competitive selection process was appointed COO 15 October 2012.

d new member of the Executive Leadership Team appointed 1 November 2012. Remuneration is prorated.

e previously Acting Executive General Manager Transmission & System Operations from 1 July – 31 October 2012 on the Executive Leadership Team.

f new member of the Executive Leadership Team appointed 1 September 2012. Remuneration is prorated.

g previously General Manager Health & Safety. Environment responsibilities added 1 November 2012

h new member of the Executive Leadership Team appointed 1 September 2012. Remuneration is pro-rated.

i previously General Manager Energy Services on the Executive Leadership Team.

j Acting Executive General Manager Distribution Operations and Reliability from 1 July – 31 October 2012 on the Executive Leadership Team.

Other changes to Ausgrid's Executive Leadership Team during 2012-13

Mike Bailey, Executive General Manager Shared Services ceased his position on the Executive Leadership Team on 31 October 2012.

Peter Birk, Executive General Manager System Planning & Regulation left Ausgrid on 31 October 2012.

Craig James, Executive General Manager Finance & Corporate left Ausgrid on 28 September 2012.

Funds granted to non-government community organisations

Ausgrid has a responsibility to support the communities in which it operates and to assist in their development and growth. Ausgrid supported a range of organisations through its Community Investment and Partnerships program which included sponsorships, employee payroll giving, University Chair Partnerships and the Community Care program in 2012/13. Ausgrid also granted funds of \$100-300 to non-government organisations through its Community Care program which matched the volunteering efforts of its employees. The table below details all non-government organisations and charities supported in 2012/13 through Ausgrid's Community Investment and Partnerships program.

Name of recipient organisation	Purpose	Target group	Program area as per budget e.g. Partnerships, Community Care Program, Payroll Giving
Community Care program beneficiaries			
Animal welfare organisations (e.g. RSPCA)	Animal welfare	Community	Community Care program
Education organisations (e.g. School Parents & Friends Committees)	Education & youth		
Emergency services organisations (e.g. Surf Life Saving clubs)	Emergency services		
Movember Foundation	Health		
Health organisations (e.g. Starlight Children's Foundation)	Health		
Social Welfare Organisations (e.g. Barnardos)	Social welfare		
Payroll Giving program beneficiaries*			
RSPCA NSW	Animal welfare	Community	Payroll giving program
Taronga Foundation	Conservation		
Hunter Westpac Rescue Helicopter Service	Emergency services		
Life Saver Rescue Helicopter – Southern Region			
Ausgrid Employees' Children's Appeal	Health		
Alzheimer's Australia			
Calvary Mater Newcastle			
DeBRA Australia			
Fred Hollows Foundation			
Leukaemia Foundation			
NSW Cancer Council			
National Heart Foundation			
National Breast Cancer Foundation			
Ovarian Cancer Australia			
SIDS & Kids Hunter Region	Social welfare		
House with no Steps			
Odyssey House			
The Smith Family	Youth		
Police Citizens Youth Clubs of NSW (PCYC)			
Youth off the Streets			
Partnership beneficiaries			
NSW Rural Fire Service	Community & safety	Community	Sponsorship
Central Coast Mariners Football Club **			
Sydney Symphony Orchestra **			
Westpac Rescue Helicopter			
Merriwa Festival of the Fleeces (Capital works support program)	Education & innovation	Industry	Research partnership
National Breast Cancer Foundation **			Sponsorship
Sydney Burns Foundation			Research partnership
Hunter Business Chamber **		Students	Sponsorship
Hunter Valley Research Foundation **			Education program
The University of Sydney Chair in Power Engineering **			
The University of New South Wales Chair in Electrical Power Economics			
The University of Newcastle Chair of Intelligent Electricity Networks			
Hunter, Sydney and South Western Sydney TAFE Institutes			
Science & Engineering Challenge			
Ausgrid Bright Future Awards (Hunter & Central Coast schools)**	Energy efficiency & sustainability	Community	Sponsorship
Surf Life Saving (Northern Beaches, Central Coast and Hunter)			
Sydney Theatre Company **			
Taronga Zoo **			
Strata Community Australia			

* Ausgrid dollar-matched \$30,000 to the Ausgrid Employees' Children's Appeal. All other Payroll Giving Charities receive contributions from employees.

** Sponsorship/program concluded 2012/13 financial year

Appendices (cont.)

Access to information – Government Information (Public Access) Act

In accordance with the *Government Information (Public Access) Act 2009* (NSW) (GIPA), Ausgrid proactively releases information of public interest via various channels including its:

- website, a comprehensive data source for past outages, meter reads, planned interruptions, graffiti and streetlighting statistics, progress updates of planned capital works, energy efficiency and electrical safety advice and other network-related information.
- social media tools which are being used increasingly as a way of communicating with customers about blackouts and

restoration times, some planned capital works, electrical safety and efficiency tips, apprenticeships and other Ausgrid programs via Facebook, Twitter and YouTube.

- Ausgrid's Contact Centre which continues to be the first point of call for personal and account information requests.
- newsletters and information flyers for customers affected by planned works to inform them of any disruptions, hours of work and the purpose of the works.

During the reporting period, Ausgrid reviewed this program by reviewing the categories of GIPA enquiries (formal and informal) to see if there are any common themes or information it could release to the community.

As a result of this review:

- Ausgrid released information more frequently and included more community information on Facebook and Twitter.
- Ausgrid added more safety and information videos on the Ausgrid YouTube channel

In 2012/13, 26 new valid applications were received with three carried over to 2013/14.

During the reporting period, there were no formal access applications refused because the information requested was information referred to in Schedule 1 to the GIPA Act.

The statistical data relating to completed GIPA applications during the financial year 2012/13 is prescribed by the GIPA Regulation and detailed in the following tables:

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	2	1	0	0	0	0	0	0
Members of Parliament	0	0	0	0	0	0	0	0
Private sector business	7	2	0	0	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)	3	0	0	2	0	0	0	0
Members of the public (other)	3	1	0	2	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 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
Personal information applications*	0	1	0	0	0	0	0	0
Access applications (other than personal information applications)	15	3	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).

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	5*
Business interests of agencies and other persons	1*
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)	19
Decided after 35 days (by agreement with applicant)	4
Not decided within time (deemed refusal)	0
Total	23

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

	Number of applications for review
Applications by access applicants	1
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	0

**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	1	1
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	1	1

*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

Appendices (cont.)

Greenhouse gas emissions

Energy use	Use	Units	GJ	% Total
Direct energy use				
Transport vehicle and stationary equipment fuels and oils				
Unleaded petrol	1,041	Kilolitres	35,621	8%
E-10	1,589	Kilolitres	52,632	12%
Diesel	5,773	Kilolitres	222,357	51%
LPG	106	Kilolitres	2,782	0.6%
Petroleum based oils	39	Kilolitres	1,513	0.3%
Building energy use				
Electricity	29,483	MWh	106,139	24%
Natural gas	14,095	GJ	14,095	3%
Total direct energy use			435,139	
Indirect energy use				
Network losses (see note 1)	1,314	GWh		

Greenhouse gas emissions (see note 2)	Scope 1	Scope 2	Total Scope 1+2	% Total
Emissions from direct energy use and synthetic gases				
Transport vehicle and stationary equipment fuels and oils				
Unleaded petrol				
E-10	2,384		2,384	7%
Diesel	3,172		3,172	9%
LPG	15,215		15,215	42%
Petroleum based oils	167		167	0.5%
Building energy use				
Electricity		5,284	5,284	15%
Natural gas	723		723	2%
Deemed synthetic gas emissions				
Sulphur hexafluoride (SF ₆) – see note 3	9,318		9,318	26%
Total operational emissions	31,022	5,284	36,306	
Emissions from indirect energy use				
Network losses (see note 1)		1,156,115	1,156,115	

Notes:

1 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. In 2012/13, total electricity losses are estimated to be 1,314 gigawatt hours, equivalent to a System Loss Factor of 4.81%.

2 Emissions based upon conversion factors from the Australian National Greenhouse Accounts Factors, July 2012.

3 Used for arc suppression in network equipment, SF₆ has a high global warming potential. Emissions from leakage are based upon Commonwealth greenhouse reporting rules which deem emissions at 0.89% of volume in service. Ausgrid had about 44 tonnes of SF₆ in service at end of 2012/13.

Guaranteed customer service standards

The NSW Government Customer Service Standards require a minimum level of service to customers in metropolitan and non-metropolitan areas. If customers experience outages that are longer or more frequent than these standards allow, they may be entitled to compensation.

During 2012/13, 388 customers who were not provided with the level of supply required by these standards, were eligible for payments, and received a total of \$31,040 in compensation. Compensation can also 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 \$1,439,421 was paid for 2,996 claims.

At times Ausgrid needs to interrupt customers' electricity supply so it can work safely on the network. During 2012/13, there were 3,696 planned interruptions. Two business days' notice was required for each of these interruptions, but this did not happen on 137 occasions. On 26 occasions, the interruption lasted longer than the time indicated on the customer notification. Customers were eligible for compensation in these cases and \$5,460 was paid.

The Ausgrid 13 13 88 customer phone line received 464,893 calls during 2012/13. A total of 226,994 calls were offered to its operators and 83.1 percent of those, or 188,623, were answered within 30 seconds. A total of 14,607 calls destined for a human operator were abandoned and 70,467 calls were abandoned from our automated system, meaning customers received information they needed without needing to speak to an operator.

Ausgrid received 1,973 complaints during 2012/13 relating to quality of supply, vegetation management, street lighting, power poles and graffiti.

Ausgrid has published information on its website and Facebook to enhance customer understanding of its tree trimming and street light repair processes.

Investment performance

Ausgrid is a net borrower in the marketplace and has disclosed interest income of \$20.5 million in the audited Financial Statements Note 2 page 42.

This income is derived from interest on our bank account being in funds and from the investment of surplus funds averaging \$394.9 million over the reporting period.

Land disposal

Ausgrid finalised three property sales in 2012/13 which were surplus to its needs at Chippendale, Beresfield and Telarah.

The Chippendale disposal was incorporated into the adjoining mixed-use staged development, with replacement substations established within that development.

The Beresfield disposal was the sale of a small portion of land forming part of the Beresfield zone substation and Thornton Pole Depot site to a developer. The developer dedicated its ownership to Council to enable the construction of a new roundabout servicing Beresfield zone substation and adjoining commercial/industrial developments.

The Telarah disposal was an acquisition by agreement by the Australian Rail Track Authority of a section of land forming part of Ausgrid's Maitland Depot. The acquisition will facilitate the construction of a third rail line in the Lower Hunter rail corridor.

The proceeds of the land disposal activities amounted to \$455,641. These proceeds were offset against cost of the assets and the net amounts contributed to Ausgrid's net profit and return back to shareholder.

Ausgrid also received a reimbursement, totalling \$287,920, from Transgrid during 2012/13. The sum represents 50 percent of the incurred acquisition costs associated with the purchase of compensatory habitat land from Hunter Water. The purchase was required as a condition of the Planning Consent relating to Ausgrid's Tomago Bulk Supply Project.

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 of various debt as at 30 June 2013 is detailed in the audited Financial Statements Note 13 page 50.

Information on Ausgrid's finance costs are disclosed in Note 3 of the audited Financial Statements on page 43.

Network prices 2013/14

On 7 June 2013 the Australian Energy Regulator advised that Ausgrid's pricing proposal was compliant with the National Electricity Rules and all forecasts associated with the proposal were reasonable. The AER-approved 2013/14 network prices were effective 1 July 2013.

Overseas travel

Name	Position	Travel To	Dates	Purpose of Travel
Jeffrey Barnsley	Executive Manager Operations South	Singapore	14–26 April 2013	Integrated Safety Management Systems course
Peter Cole	Manager Plant Engineering	France	21–31 August 2012	CIGRE Session 2012 (funded by CIGRE) Supplier visit
Glenn Cooper	Manager – Control and Protection	Germany & France	6–31 August 2012	Technology training and CIGRE Session 2012
Robert Corke	Manager – Secondary Systems Support	Germany & France	6–31 August 2012	Technology training and CIGRE Session 2012
Pamela Henderson	Chief Engineer	USA	6–14 April 2013	International Utilities Working Group
Peter York	GM-HSE	Singapore	14–26 April 2013	Integrated Safety Management Systems course

Appendices (cont.)

Major works in progress 2012/13

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

Project Name	Expenditure prior years	2012-13 costs	Total Cost to date	Practical Completion Forecast	Comment
Aberdeen new 66/11kV zone & 66kV feeders	17,472,818	1,262,778	18,735,596	Complete (Sept 12)	New 66/11kV zone substation in Aberdeen and associated 66kV feeder works
Avoca 11kV switchgear replacement	9,450,973	460,300	9,911,274	Complete (Jan 13)	Avoca zone substation 11kV switchgear replacement
Bankstown STS – Punchbowl 33kV gas cable replacement	1,039,169	11,311,788	12,350,957	Dec-13	Replace 33kV feeders 665, 666, 667, and 668 to Punchbowl zone substation
Bankstown STS 33kV switchgear replacement	9,050,722	3,761,452	12,812,174	May-15	Rebuild existing 33kV busbars and 33kV switchgear at Bankstown STS with indoor 33kV switchgear
Beaconsfield West 132kV busbar replacement	10,190,280	4,811,924	15,002,203	Dec-14	Reconnect existing Ausgrid 132kV feeder cables to the new Transgrid 132kV busbar
Belmore Park 132kV feeders	5,968,149	360,287	6,328,436	Nov-14	Install 132kV feeders to supply Belmore Park 132/11kV zone substation
Belmore Park new 132/11kV zone	73,419,018	28,239,720	101,658,738	Dec-13	Construction of a new 132/11kV zone substation
Bligh St new 132/11kV zone	9,285,414	649,039	9,934,453	Jan-18	New Bligh St 132/11kV zone substation
Brandy Hill new 132/11kV zone	16,365,227	2,392,955	18,758,183	Nov-13	New 132/11kV zone substation at Brandy Hill
Broadmeadow new 132/11kV zone	21,321,611	6,507,323	27,828,935	Oct-13	Construction of a new Broadmeadow 132/11kV zone substation
Bunnerong North 132kV capacitors	5,698,078	5,318,827	11,016,905	Jul-14	Installation of a capacitor bank and replacement of transformer at Bunnerong North sub transmission substation
Camperdown 33kV feeder replacement	14,302,095	4,286,229	18,588,324	Feb-14	Replace 33kV feeders to supply Camperdown zone
Camperdown zone refurbishment	6,754,670	2,636,385	9,391,054	May-14	Upgrade of Camperdown 33/5kV to 33/11kV zone substation
Canterbury STS refurbishment	17,022,339	10,452,473	27,474,812	Jan-17	Refurbishment of Canterbury sub transmission substation replacing the outdoor 132kV and 33kV busbars with new indoor equipment
Charlestown new 132/11kV zone	27,502,590	3,508,487	31,011,077	Complete (Nov 12)	New 132/11kV zone substation and associated 132kV feeders works at Charlestown
City South transformer replacement	22,527,894	1,296,415	23,824,308	Sep-13	Replacement of existing transformers with gas insulated transformers
Crows Nest 132kV feeders	3,536,905	10,701,221	14,238,126	Jul-13	New 132kV underground feeders to the refurbished Crows Nest zone substation
Crows Nest zone 132kV conversion	14,488,517	2,012,730	16,501,247	Jun-15	Conversion of Crows Nest to 132/11kV
Croydon new 132/11kV zone	11,481,330	8,428,373	19,909,703	Jun-16	Development of Croydon 132/11kV zone substation
Dalley St Emergency 11kV switchgear	5,377,891	413,236	5,791,126	Jun-14	Dalley St emergency 11kV switchgear
Empire Bay new 66/11kV zone	16,417,921	2,294,050	18,711,971	Complete (June 13)	Construction of a New 66/11kV zone substation at Empire Bay
Empire Bay to Avoca new 66kV feeder 883	9,411,437	19,916,581	29,328,018	Nov-13	Construct of two 66kV feeders to Empire Bay zone substation

Major works in progress 2012/13 (cont.)

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

Project Name	Expenditure prior years	2012-13 costs	Total Cost to date	Practical Completion Forecast	Comment
Engadine 132/11kV zone	15,789,222	4,129,089	19,918,310	Jul-14	Construction of a new 132/11kV zone substation at Engadine
Epping zone 11kV switchgear replacement	5,481,654	6,021,016	11,502,670	Mar-14	New indoor 11kV switchroom and associated equipment
Feeders 91I, 91M1 & 91M3 replacement	132,443,031	33,079,979	165,523,010	May-14	Construction of new 132kV feeders
Green Square to Beaconsfield West 132kV	8,919,572	378,992	8,540,580	Complete (Aug 12)	New 132kV feeder
Gwawley Bay Hybrid Zone 132/33kV conversion	16,208,557	2,013,680	18,222,237	Complete (Feb 13)	132kV conversion of Gwawley Bay zone substation
Haymarket – Beaconsfield West 132kV feeder 9s4	245,330	4,808,153	5,053,482	Complete (Jul 13)	New 132kV feeder 9S4
Homebush STS redevelopment	46,490,885	225,673	46,265,211	Aug-13	Replacement of existing sub transmission substation
Homebush STS third 132/33kV transformer	3,314,998	2,067,209	5,382,207	Complete (Sep 12)	Provision of additional 120MVA 132/33kV transformer at Homebush
Hunters Hill substation refurbishment	13,268,172	1,957,272	15,225,444	May-14	New 66kV switchroom, upgrade the substation oil containment system and refurbish the substation fire protection
Hurstville North 132/11kV zone	27,204,610	152,193	27,356,802	Feb-14	Construction of New Hurstville North 132/11kV zone substation
Jannali zone refurbishment	1,932,742	5,573,205	7,505,948	Sep-15	Replacement of the 11kV and 33kV switchgear and the remediation of the 33kV busbar at Jannali zone substation
Kuringai STS 33kV switchgear replacement	2,844,917	3,805,855	6,650,772	Apr-17	Replacement of outdoor 33kV switchgear and busbar at Kuringai sub transmission substation with indoor switchgear
Kurnell new 132/11kV zone	4,383,931	3,897,654	8,281,586	Sep-14	New 132/11kV Kurnell New zone substation
Lake Munmorah new 132kV feeders	10,340,427	3,732,752	14,073,179	Complete (Nov 12)	Two new 132kV connections to Transgrid's Vales Point and Munmorah Bulk Supply Points
Lake Munmorah zone replacement	21,995,687	2,295,187	24,290,874	Complete (Dec 12)	Redevelop Lake Munmorah zone from outdoor 33/11kV to indoor 132/11kV zone substation
Leichhardt 132/11kV zone conversion	11,877,404	6,363,081	18,240,485	Jul-17	Conversion of Leichhardt zone from 33kV to 132kV
Lindfield STS 132kV ring main circuit breaker	8,322,064	3,663,772	11,985,836	Nov-14	Installation of 132kV ring main circuit breakers at Lindfield sub transmission substation to connect the new feeder to Castle Cove zone substation
Lindfield zone 11kV switchgear replacement	9,187,054	2,147,056	11,334,110	Complete (Apr 13)	Replacement of the existing 11kV switchgear with new 11kV double bus switchgear
Lindfield-Kuringai 33kV feeder replacement	17,604,440	1,442,732	19,047,172	Complete (Apr 13)	Replace aged 33kV cables from Kuringai sub transmission substation to Lindfield zone substation
Maitland new 33/11kV zone	12,149,186	5,018,417	17,167,604	Complete (Aug 13)	Construction of a new 33/11kV zone substation and the associated 33kV subtransmission works

Appendices (cont.)

Major works in progress 2012/13 (cont.)

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

Project Name	Expenditure prior years	2012-13 costs	Total Cost to date	Practical Completion Forecast	Comment
Manly zone 33kV switchgear refurbishment	3,308,964	5,217,362	8,526,326	Apr-14	Replace the existing 33kV switchgear; upgrade control and protection and SCADA; install auxiliary transformer
Marrickville zone new 132kV ring main circuit breaker	7,604,938	6,777,877	14,382,815	Feb-15	Installation of ring main circuit breaker at Marrickville zone substation
Mason Park – Rozelle feeder 900 replacement	5,004,903	2,663,142	7,668,045	Nov-15	Replace 132kV feeder 900
Medowie new 33/11kV zone	6,846,967	7,013,790	13,860,757	Feb-14	Establish Medowie 33/11kV zone substation
Mitchell Line – Muswellbrook 66kV feeders	9,861,905	4,398,362	14,260,267	Feb-14	66kV Mitchell Line subtransmission network development
Newcastle CBD oil filled cable replacement	13,587,575	212,532	13,800,108	Jul-14	Design, supply, install and commission two new 33kV feeder circuits in parallel to replace existing feeder cable 770
North Sydney 132kV feeder augmentation	1,542,088	13,953,397	15,495,485	Nov-13	Installation of two new 132kV feeders to North Sydney zone
North Sydney zone redevelopment	31,348,558	30,554,522	61,903,080	Nov-14	Full conversion of North Sydney zone substation to 132/11kV operation
Port Hacking refurbishment	13,849,319	8,403,472	22,252,791	Sep-14	New indoor 132kV and 33kV switchroom on the existing substation site and decommission the existing 132kV and 33kV switchgear
Potts Hill new 132/11kV zone	33,517,090	1,062,988	34,580,077	Complete (Dec 12)	Construction of new 132/11kV zone substation
Rathmines new 132/11kV zone	20,757,295	4,000,657	24,757,952	Complete (Mar 13)	Construction of a new 132/11kV zone substation
Riley St to Dalley St 132kV connections	44,813,827	56,946,487	101,760,314	Mar-15	Construction of the City East Cable Tunnel and the City South Cable Tunnel extension
Rose Bay 132kV feeders	41,862,549	17,771,959	59,634,508	Nov-13	Install 132kV cables to Campbell St and Belmore Park zone via the southern CBD cable tunnel
Rose Bay new 132/11kV zone	22,525,882	200,605	22,726,487	Jan-14	Construction of a new 132/11kV zone substation
St Ives 33kV Fdr 540, 541 & 542 replacement	8,237,807	519,459	8,757,266	Sep-14	Replace 33kV feeders 540, 541 & 542
St Peters zone new 132kV ring main circuit breaker	6,385,582	8,884,393	15,269,975	Jun-14	Installation of two new ring main circuit breakers at St Peters zone substation
Tanilba Bay 33/11kV zone substation Stage 2	11,943,161	1,091,795	13,034,956	Sep-13	Install 33/11kV transformer, 33kV indoor busbar, additional 33kV feeder and 11kV switchboard
Tomago STS 33kV busbar replacement	14,639,676	2,315,408	16,955,084	Complete (Mar 13)	Replace 33kV busbar, switchgear, control and protection equipment with indoor equipment
Tomaree new 33/11kV zone	21,353,813	5,079,557	26,433,370	Complete (Dec 12)	Construction of new 33/11kV zone with two 33kV connections from Nelson Bay zone
Turrumurra 11kV switchgear replacement	9,304,407	413,433	9,717,840	Complete (Nov 12)	Replace 11kV switchgear with two groups of double bus switchgear
Waverley new 132/11kV zone	7,792,850	14,067,758	21,860,609	Nov-13	New 132/11kV zone substation at Waverley and associated 132kV feeder connections

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 wrongdoing 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 (The Wire).

In 2012/13, Ausgrid received seven Public Interest Disclosures from seven public officials, all of them primarily related to alleged corrupt conduct. Eight Public Interest disclosures were finalised in 2012/13, one of which commenced in 2011/12.

Research and development

Ausgrid continues to support innovation and research for emerging energy technologies. It works closely with major equipment suppliers to introduce new solutions for its electricity network and maintains close links with universities and other research institutions.

The organisation is a member of the Australian Strategic Technology Program which fosters collaborative research into energy technologies across a number of projects and institutions.

Ausgrid is a participant in CIGRE (International Council on Large Electric Systems), Centre for Energy Advancement through Technological Innovation (CEATI International), and the Australian Power Institute. It supports research at the University of Technology Queensland, and sponsors a Chair of Intelligent Electricity Networks at Newcastle University and a Chair of Power Economics at University of New South Wales among other research involvements.

Summary of legislative changes and judicial decisions

Material changes to Commonwealth legislation *National Electricity Rules*

(a) Changes to normal voltage – effective 7 March 2013, the Australian Energy Market Operator (AEMO) is required to publish a notice notifying registered participants that it has received a request to change the normal voltage level at a connection point and a further notice notifying registered participants of the nature and reasons for the change in the normal voltage level.

- (b) Economic regulation of network service providers – effective 29 November 2012, the AEMC changed the rules governing:
- (i) rate of return;
 - (ii) capital expenditure incentives;
 - (iii) capital expenditure and operating expenditure allowances; and
 - (iv) regulatory process.
- (c) Distribution network planning and expansion framework – effective 1 January 2013, the rule implements an annual planning and reporting process and a distribution project assessment process. The key components are:
- (i) a distribution annual planning review;
 - (ii) a distribution annual planning report;
 - (iii) demand side engagement obligations on distribution businesses;
 - (iv) joint planning arrangements;
 - (v) the regulatory investment test for distribution (RIT-D); and
 - (vi) a dispute resolution process for the RIT-D.
- (d) Distribution losses in expenditure forecasts – effective 1 January 2013, distribution network service providers are required to provide an explanation of how they take the cost of distribution losses into account as part of the reporting requirements under the new Distribution Annual Planning Report.
- (e) Cost pass through arrangements for distribution service providers – effective 2 August 2012, network businesses may nominate additional pass through events and may recover their efficient costs if a cost pass through event occurs in the final year of a regulatory control period.

Privacy Act 1988 (Cth)

Significant amendments made to this Act via the *Privacy Amendment (Enhancing Privacy Protection) Act 2012 (Cth)* will commence in March 2014. Following are some of the matters of note arising from the amendments:

- Organisations will need to have a compliance policy that demonstrates compliance with the legislation.
- Each organisation must have documented procedures for complying with the legislation.
- There is a new accountability regime for personal information that is held offshore.
- The implementation of procedures for dealing with complaints.

- There are restrictions on the collection and use of personal information for direct marketing.
- The powers of the Privacy Commissioner have been clarified and expanded.

Material changes to New South Wales legislation *Energy Services Corporations Act 1995 (NSW)*

This Act was amended by the *Energy Services Corporations Amendment (Distributor Efficiency) Act 2013*, assented to on 3 June 2013 and has commenced in 2013/14. The amendment formally provides for a single board of directors as the joint board of each of the energy distributors. The board must act in the best interests of all of the energy distributors as if the individual businesses were a combined operation.

The amendment also addresses the cost of compliance with Ministerial directions. As a result of the amendment, a single distributor is not entitled to be reimbursed for compliance costs if the Ministerial direction is in the commercial interests of all three distributors combined, i.e. there is an overall net benefit for the distributors as a whole. Also, if a direction is not in the combined commercial interests of the energy distributors, any amount that a single distributor will be entitled to be reimbursed in connection with compliance is to be reduced by the amount of the net benefit accruing to any of the other distributors as a result of compliance.

Environmental Planning and Assessment Act 1979 (NSW)

Effective 1 March 2013, this Act was amended by the *Environmental Planning and Assessment Amendment Act 2012* to clarify the purpose, status and content of development control plans and how they are to be taken into account during the development assessment process for achieving environmental objectives, to give more weight to development control instruments over development control plans, to require written contracts for certification work and to extend indemnification against possible copyright breaches of documents submitted by persons who do not have copyright where the documents are publicly notified or made use of under the Act.

Independent Commission Against Corruption Act 1988 (NSW)

Effective 19 April 2013, this Act was amended by the *Independent Commission Against Corruption Amendment (Disciplinary Proceedings) Act 2013* to enable employers to take disciplinary proceedings against public official employees on the basis of a formal finding of corruption by ICAC without the need for further investigation. It makes admissible in disciplinary proceedings evidence that may be self-incriminating. The public official must be given an opportunity to make a submission in relation to any proposed action following the determination of the disciplinary proceedings.

State Owned Corporations Act 1989 (NSW)

Effective 3 June 2013, amendments through the *State Owned Corporations Legislation Amendment (Staff Directors) Act 2013* have removed the mandatory requirement for staff directors to be appointed (including a union nominated director). Instead, merit-based appointments will be made as positions become vacant.

Work Health & Safety Act 2011 (NSW)

Throughout the reporting period, the *Work Health and Safety Act 2011* (WHS Act) and the related regulation were amended to:

- (a) clarify that WorkCover must be notified of notifiable incidents, even if the incidents have also been notified under the *Workplace Injury Management and Workers Compensation Act 1998*;
- (b) update the criteria relating to prohibited and restricted carcinogens and hazardous chemicals; and
- (c) allow WorkCover to share information it obtains under the WHS Act with other persons to enable the administration of a range of other safety, criminal and environmental Acts.

Summary of significant judicial decisions, new codes of practice and compliance exemptions

During the financial year, there were no judicial decisions significantly affecting the operations of Ausgrid or the users of its services.

Waste Reduction and Purchasing Policy

Ausgrid continues to implement a Waste Reduction and Purchasing Policy (WRAPP) Plan.

Examples of initiatives undertaken during 2012/13 include:

Reducing the generation of waste

- packaging audit and investigation of ways to minimise packaging
- educational campaign to encourage staff to print double-sided

Resource recovery

- development of a poster to be placed at depots showing how to recycle construction materials
- implementation of a new battery recycling program
- staff consultation about recycling culture using Ausgrid's internal online forum, Connect
- maintenance of FluoroCycle signatory status for the recycling of all our mercury-containing lamps
- completion of waste audits to identify areas for improvement
- development of education materials for cleaners to maximise waste stream separation from offices

Use of recycled material

- promotion of the use of recycled aggregate in construction projects
- development of an online surplus material register to facilitate recycling between various locations.

Other WRAPP initiatives included:

- development of a one-stop-shop for Ausgrid's contract managers which included waste management and resource efficiency contract clauses, as well as the review of existing specialist contract clauses for the contract cable-laying group
- development of a waste management plan (WMP) template for use on construction projects; and
- development of a new electronic WRAPP reporting form to make data collation easier.

Threatened species

The site of Ausgrid's Bunnerong subtransmission substation and switching station at Matraville in Sydney's south includes about 1.5 hectares of Eastern Suburbs Banksia Scrub, which is an endangered ecological community. As part of its Botany Bay Cable Project, Ausgrid developed a management plan in 2008 to work with Bush Habitat Restoration Cooperative Limited to remove weeds, control erosion and protect and monitor endangered flora and fauna. At the start of the project, the site was heavily infested with Bitou Bush, Lantana and African Love Grass. However, four years on, it is about 70 percent free of mature weed species, and most of the removed weeds have been used to control onsite erosion.

Glossary

Electricity

V volt	A volt is the unit of potential or electrical pressure
W watt	A measurement of the power present when a current of one ampere flows under a potential of one volt
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
kV kilovolt	One kV = 1000 volts
kVA kilovolt ampere	A unit of apparent power in an alternating current circuit equal to 1000 volt amperes
kVAR kilovolt ampere reactive	A measure of the reactive component of power demand. Reactive power is consumed by inductive loads. Capacitors are commonly installed at customer sites to reduce reactive power demand on the electricity network
kt kilotonne	1 Kt = 1,000 tonnes
MVA megavolt ampere	A unit of apparent power in an alternating current circuit equal to one million volt amperes (A unit commonly used when expressing the rating of a large power transformer)
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
GJ gigajoule	One GJ = 1000 megajoules. A joule is the basic unit of energy used in the gas industry equal to the work done when a current of one ampere is passed through a resistance of one ohm for one second
TJ terajoule	One TJ = One million megajoules
STS	Subtransmission substation; Subtransmission system Consists of 33 kV, 66 kV and 132 kV assets
HV high voltage	Consists of 5 kV, 11 kV and 22 kV distribution assets
LV low voltage	Consists of 240V and 415V distribution assets
TWh Terawatt hour	1TWh= 1,000,000,000 kWh

Other

ACT	Australian Capital Territory
AEIFRS	Australian Equivalents to the International Financial Reporting Standards
AER	Australian Energy Regulator
AMI	Advanced Metering Infrastructure (AMI)
ARSBA	Annual Reports (Statutory Bodies) Act 1984
ARSBR	Annual Reports (Statutory Bodies) Regulation 2005
CALD	Culturally and linguistically diverse
CBD	Central Business District
CO₂-e	Carbon dioxide equivalent
DIY	Do it yourself
DM	Demand Management
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation

Other (continued)

EEO	Equal employment opportunity
EMF	Electric and magnetic fields
esaa	Energy Supply Association of Australia
FTE	Full-time equivalent
GIS	Gas insulated switchgear
GIS	Geographical Information System
GREENPOWER	GreenPower is a national accreditation program that sets stringent environmental and reporting standards for renewable energy products offered by electricity suppliers to households and businesses across Australia
GRI	Global Reporting Initiative
GST	Goods and services tax
IPART	Independent Pricing and Regulatory Tribunal
LBG	London Benchmarking Group
LED	Light emitting diode – an energy efficient method of lighting
LTIFR	Lost Time Injury Frequency Rate
LTISR	Lost Time Injury Severity Rate, calculated as total days of lost time injury per million hours worked
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
NGACs	NSW Greenhouse Gas Abatement Certificates
NPAT	Net Profit After Tax
NSW	New South Wales, the Australian state
OH&S	Occupational Health and Safety
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
ROA	Return on assets
PCB	Polychlorinated biphenyls
SAIDI	Normalised System Average Interruption Duration Index
SAIFI	Normalised System Average Interruption Frequency Index
SCI	Statement of corporate intent
TAFE	Technical and Further Education Commission, NSW based vocational education and training provider
Time-of-use	Time-of-use Electricity pricing based on the time at which the electricity is used. This type of pricing requires a special meter.
TRIFR	Total Recordable Injury Frequency Rate
WH&S	Workplace Health and Safety

Index

Index	Page	Index	Page
Annual report costs	75	Emissions	22, 82
Apprentices	15, 18, 19	Employee health and wellbeing	11
Assurance	4	Employee mobility	18
Board	25, 26	Environment	7, 16, 22, 23, 82, 88
Bushfire	13, 14	Equal Employment Opportunity	18, 76
Business changes	6	Executive changes and remuneration	76
Business process	9	Executive Leadership Team	26
Capital expenditure	7, 12, 16, 84	External audit	27
Changes to governance and structure	24	Feedback	4
Code of Conduct	26, 27	Finance	7, 9, 28, 29-73
Community	8, 20, 21	Fraud and corruption	27
Partnerships	21	Funds granted to non-government organisations	79
Compliance	26	Governance	24-26
Consultancies	75	Government Information (Public Access) Act	80
Credit card certification	75	Graffiti	20
Culture	9	Greenhouse	22, 82
Customer	8, 13, 21, 83	Customer service standards	83
Customer Council	20	Independent auditor's report	72
Demand management	16	Indigenous programs	18
Dial Before You Dig	20	Insurance	26
Directors' Attendance Schedule	25	Internal audit	27
Disclosure of approved exemptions	75	Investment performance	83
Diversity	18	Land and Environment Court	23
		Land disposal	83
		Legislative changes	87
		Letter to shareholders	2

Index	Page	Index	Page
Technology	13	Recycling	23, 88
Liability management performance	83	Reform program	13
Maintenance tasks	12	Reliability	7, 13
Major works in progress	84	Replacement projects	12
Manage business risk	14	Report layout	4
Metering	16	Research and development	87
Multi-cultural Policies and Services program	21	Return on shareholders' funds	28
National Energy Customer Framework	17	Risk	14
Network	7, 12, 16, 84	Safety	6, 8, 10
Network prices	6, 13, 83	Interruptions	6
Operational structure	24	Security	20
Overseas travel	83	Stakeholder engagement	5
PCBs	23	Strategic achievements, challenges and targets	8
People	6, 11, 15, 18	Streetlighting	16
Performance	10	Transitional services risk management	14
Personnel policies and practices	18	Vegetation management	16
Principal activities and governance	5	Water, power and fuel use	23
Privacy	27	Threatened species	88
Public consultation	20	Waste Reduction and Purchasing Policy	88
Public Interest Disclosures Act	87		
Public safety	11, 20		
Purpose and vision	5		

Annual Report

2012/2013



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