Leases

Accounting Policy Manual

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1 PURPOSE

The objective of this policy is to prescribe the accounting treatment for leases. This policy complies with the requirements of AASB 16 *Leases*.

The principal accounting issue addressed by this policy is the identification, recognition, classification and measurement of leased assets and liabilities. The policy also deals with whether or not an arrangement is in substance a lease.

2 SCOPE

This policy shall be applied to all leasing and deemed leasing arrangements entered into by AusNet Services.

3 DEFINITIONS

The <u>commencement date of the lease</u> (commencement date) is the date on which a lessor makes an underlying asset available for use by a lessee.

The <u>economic life</u> is either the period over which an asset is expected to be economically usable by one or more users or the number of production or similar units expected to be obtained from an asset by one or more users.

The <u>effective date of the modification</u> is the date when both parties agree to a lease modification.

<u>Fair value</u>, for the purpose of applying the lessor accounting requirements in this policy, is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

A <u>finance lease</u> is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

<u>Fixed payments</u> are payments made by a lessee to a lessor for the right to use an underlying asset during the lease term, excluding variable lease payments.

The <u>gross investment in the lease</u> is the sum of the lease payments receivable by a lessor under a finance lease; and any unguaranteed residual value accruing to the lessor.

The <u>inception date of the lease</u> (inception date) is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease.

<u>Initial direct costs</u> are incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained, except for such costs incurred by a manufacturer or dealer lessor in connection with a finance lease.

The <u>interest rate implicit in the lease</u> is the rate of interest that causes the present value of (a) the lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.

A <u>lease</u> is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

<u>Lease incentives</u> are payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee.

A <u>lease modification</u> is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

The <u>lease payments</u> in a lease are the payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:

- fixed payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or a rate;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

For the lessee, lease payments also include amounts expected to be payable by the lessee under residual value guarantees. Lease payments do not include payments allocated to non-lease components of a contract, unless the lessee elects to combine non-lease components with a lease component and to account for them as a single lease component.

For the lessor, lease payments also include any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. Lease payments do not include payments allocated to non-lease components.

The lease term is the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

A lessee is an entity that obtains the right to use an underlying asset for a period of time in exchange for consideration.

The lessee's incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

A lessor is an entity that provides the right to use an underlying asset for a period of time in exchange for consideration.

The net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Optional lease payments are payments to be made by a lessee to a lessor for the right to use an underlying asset during periods covered by an option to extend or terminate a lease that are not included in the lease term.

The period of use is the total period of time that an asset is used to fulfil a contract with a customer (including any non-consecutive periods of time).

A residual value guarantee is a guarantee made to a lessor by a party unrelated to the lessor that the value (or part of the value) of an underlying asset at the end of a lease will be at least a specified amount.

A right-of-use asset is an asset that represents a lessee's right to use an underlying asset for the lease term.

A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.

A sublease is a transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and lessee remains in effect.

The underlying asset refers to the asset that is the subject of a lease, for which the right to use that asset has been provided by a lessor to a lessee.

Unearned finance income is the difference between:

- the gross investment in the lease; and
- the net investment in the lease.

Unguaranteed residual value is that portion of the residual value of the underlying asset, the realisation of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.

Variable lease payments are the portion of payments made by a lessee to a lessor for the right to use an underlying asset during the lease term that varies because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.

4 FUNDAMENTAL CONCEPTS

The accounting for leases depends upon the lease classification and whether AusNet Services is the lessee or lessor. The accounting for leases is summarised as follows:

AusNet Services as lessee:

- An asset and liability are recorded for all leases with a term of more than 12 months, unless the underlying asset is under $5,000. If there is reasonable certainty that AusNet Services will obtain ownership at the end of the lease term, the asset is depreciated over its useful life; otherwise the asset is depreciated over the shorter of the lease term or the expected useful life of the asset. Payments made are recorded as a reduction in the liability and interest expense.
- Examples of AusNet's contracts which fall outside of the scope of AASB 16 due to either failing the monetary threshold or being short term in nature are:
    - Printers and office equipment;
    - Leased vehicles;
    - Short term hire of plant and equipment; and
    - Protective equipment.
- AEMO and easement contracts also fall outside of the scope of AASB 16. See section 10 and 11 respectively for further information.

AusNet Services as lessor:

- For finance leases, the asset is de-recognised and a lease receivable recorded. Payments received from the lessee are recorded as a reduction in the receivable and interest revenue.
- For operating leases, lease income is recorded as the benefits of the asset are provided to the lessee. The asset is recorded in the balance sheet, as property, plant and equipment in accordance with FIN 10-10 *Property, Plant and Equipment* and is depreciated over its expected useful life.
- For AusNet, this is primarily in relation to unregulated transmission connection contracts. See section 10 for further information.

5 IDENTIFYING A LEASE

At inception of a contract, the contract shall be assessed for whether it is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, and the customer has both of the following:

- the right to obtain substantially all of the economic benefits from use of the identified asset; and
- the right to direct the use of the identified asset.

The main instances where AusNet is a lessee in a contract is with respect to the lease of land and buildings. For example, the lease associated with Freshwater Place office space. As AusNet receives substantially all of the economic benefits as well as possessing the right to direct the use of the asset, the contract falls within the scope of AASB 16.

Identified Asset:

An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer. This distinction is relevant to AusNet in relation to the unregulated transmission connection contracts. While these contracts were not drafted with the intention of being defined as a lease, in accordance with the principals of substance over form, the contracts do meet the definition under AASB 16. See section 10 for further details.

Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use. A supplier's right to substitute an asset is substantive only if both of the following conditions exist:

- the supplier has the practical ability to substitute alternative assets throughout the period of use; and
- the supplier would benefit economically from the exercise of its right to substitute the asset (i.e. the economic benefits associated with substituting the asset are expected to exceed the costs associated with substituting the asset).

Assets can be separated into portions and the individual portion can be an identified asset if they are physically distinct (for example a floor of a building with many tenants). Where the portion is not physically distinct (for example a capacity portion of a cable), the portion is not an identified asset unless it represents substantially all of the capacity of the asset.

<u>Right to obtain substantially all of the economic benefits of the identified asset:</u>

To control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with a third party.

<u>Right to direct the use of the identified asset:</u>

A customer has the right to direct the use of an asset if, within the scope of its right of use defined in the contract, it can change how and for what purpose the asset is used throughout the period of use. In making this assessment, the decision-making rights that are most relevant to changing how and for what purpose the asset is used throughout the period of use are considered.

Examples of decision-making rights that, depending on the circumstances, grant the right to change how and for what purpose the asset is used, include:

- rights to change the type of output that is produced by the asset;
- rights to change when the output is produced;
- rights to change where the output is produced; and
- rights to change whether the output is produced, and the quantity of that output.

Examples of decision-making rights that do not grant the right to change how and for what purpose the asset is used include rights that are limited to operating or maintaining the asset. Such rights can be held by the customer or the supplier.

The relevant decisions about how and for what purpose the asset is used can be predetermined, for example, by the design of the asset or by contractual restrictions on the use of the asset.

5.1 LEASE TERM

The lease term is the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if it's reasonably certain that the option will be exercised; and
- periods covered by an option to terminate the lease if it's reasonably certain not to exercise that option.

6 RECOGNITION

6.1 AUSNET SERVICES AS LESSEE

6.1.1 INITIAL RECOGNITION

At commencement date of the lease, a lease liability shall be recognised at the present value of the remaining lease payments. The lease payments shall be discounted using the interest rate implicit within the lease. If that rate cannot be readily determined, AusNet's incremental borrowing rate should be used, based on the rate of interest AusNet would pay for borrowing funds over a similar period to the lease term, for an amount similar to the lease value and with similar security. Lease payments included in the liability comprise the following:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or rate, such as CPI, or payments linked to a benchmark interest rate;
- amounts expected to be payable under a residual value guarantee;
- the exercise price of a purchase option if it's reasonably certain to exercise that option and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

A right-of-use asset shall be recognised equal to the lease liability, plus:

- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred; and
- an estimate of costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Certain AusNet property leases contain lease incentives such as rent-free periods. Under AASB 16, the incentives are excluded from the contractual cash flows in the initial recognition of the lease liability. If the lease incentive takes the form of cash receivable by AusNet, this cash flow is offset against future lease payments in the contractual cash flows in the initial recognition of the lease liability.

6.1.2 SUBSEQUENT MEASUREMENT

After the commencement date, interest expense will be recognised periodically in the P&L with an increase to the lease liability. Interest will be calculated using the discount rate identified in 6.1.1. Lease payments made will reduce the liability.

The right-of-use asset will decrease subsequent to the commencement date to recognise accumulated depreciation of the right-of-use asset and any accumulated impairment losses.

<u>Lease liability remeasurements:</u>

The lease liability will be remeasured for any of the following reasons:

- a change in the lease term. The lease payments shall be revised using a revised discount rate;
- a change in the assessment of an option to purchase the underlying asset. The lease payments shall be revised using a revised discount rate. For example, if at inception of the lease, AusNet believed it to be reasonably certain that a property extension option will be exercised then this would result in recognition of the term extension option within the right of use asset and lease liability calculations on initial recognition. If however subsequently AusNet realise that the property will no longer be fit for purpose (at the forecast extension date) and therefore exercising the option ceases to be reasonably certain, the option's associated lease liability and right of use asset will be remeasured and reversed;
- a change in the amounts expected to be payable under a residual value guarantee;
- a change in future lease payments resulting from a change in an index or a rate used to determine those payments. This includes CPI increases and a change in market rental rates following a market

rent review. The discount rate used shall remain unchanged unless the change in lease payment results from a change in floating interest rates.

- there is a lease modification that is not accounted for as a separate lease. A separate lease will be recognised if both an underlying asset is added to the scope of the lease and consideration for the underlying asset is commensurate with the stand-alone price for that asset. For a modification that is not accounted for as a separate lease, the remeasurement of the lease liability shall be accounted for as follows:
    - decrease the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognise in profit or loss any gain or loss relating to the partial or full termination of the lease.
    - making a corresponding adjustment to the right-of-use asset for all other lease modifications.
- there is a material change in AusNet's incremental borrowing rate (based on Bloomberg 10 / 15 / 25 year mid-swap rates and associated credit margins.)

Right-of-use asset remeasurements:

Any remeasurement of the lease liability described above will also be reflected in the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the remeasurement shall be recognised in the P&L.

6.2 AUSNET SERVICES AS LESSOR

6.2.1 FINANCE LEASES

6.2.1.1. INITIAL RECOGNITION

In a finance lease, the lessor seeks to recover the full cost of the asset plus interest within the contracted period of the lease. For accounting purposes, AusNet Services' involvement in outgoing finance leases is treated as a receivable (i.e. debtor) and not as a fixed asset, equal to the net investment in the lease. The net investment in the lease is the sum of the lease payments receivable by AusNet Services and any unguaranteed residual value accruing to AusNet, discounted using the interest rate implicit in the lease. The lease receivable must be split between current and non-current receivables.

Section 10 documents the considerations associated with Mondo wind farm connection contracts and older unregulated transmission contracts. These are the principal instances where AusNet operates as a lessor in a contract.

Initial direct costs, other than those incurred in a 'manufacturer or dealer' type lease are included in the initial measurement of the net investment in the lease.

Lease payments included in the net investment in the lease comprise the following:

- fixed payments, less any lease incentives payable;
- variable lease payments that depend on an index or rate, such as CPI, or payments linked to a benchmark interest rate;
- amounts expected to be payable under a residual value guarantee;
- the exercise price of a purchase option if it's reasonably certain that the lessee will exercise that option and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Manufacturer or dealer leases:

Finance leases are classified into a manufacturer or dealer type lease at the inception of the lease where there is a manufacturer or dealer relationship with a customer (i.e. it can be demonstrated that the customer has the choice of either buying or leasing the asset and AusNet Services has regular practice of selling this equipment directly to customers).

The sales revenue recognised at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest. The cost of sale recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the selling profit, which is recognised in accordance with the entity's policy for outright sales. If artificially low rates of interest are quoted, selling profit is restricted to that which would apply if a market rate of interest were charged. Initial direct costs incurred by a lessor which relate to a sales-type lease must be accounted for by the lessor as a cost of sales in the financial year in which the lease transaction occurs.

6.2.1.2. SUBSEQUENT MEASUREMENT

After the commencement date, finance income will be recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on AusNet Services' net investment in the lease.

For a modification to a finance lease that is not accounted for as a separate lease, if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the modification shall be accounted for as a new lease from the effective date of the modification; and the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification. Any impairment to a finance lease shall be provided for in accordance with *FIN 10-50 Debt, derivatives and Other Financial Instruments*.

A separate lease will be recognised if both an underlying asset is added to the scope of the lease and consideration for the underlying asset is commensurate with the stand-alone price for that asset.

For AusNet this primarily relates to additional costs that are incurred post initial recognition. In these instances, a distinction is made as to whether the additional costs are:

- late costs that were attributable to existing assets and were scoped within the original contract; or
- related to the creation of new assets

If the former, then these items are processed as late costs and are SarCoded to the existing asset which is remeasured to incorporate the additional spend.

If the latter, then the costs will be recognised as a new leased asset in accordance with this accounting policy.

There are also instances where contract costs are recovered. This occurs when – for example - a project's construction has been contracted to a third party and AusNet contests or litigates against the contractor for unreasonable cost escalations. If the result is a recovery of costs by AusNet, the leased asset is reasmeasured accordingly with the recovered amount being reversed from the valuation.

Where CPI price escalations are built into the contractual cash flows, these are allocated to operations and maintenance revenue (i.e. outside of the scope of AASB 16) rather than being recognised through a remeasurement of the existing leased asset.

6.2.2 OPERATING LEASES

When a lease is classified by the lessor as an operating lease, the leased asset must continue to be classified as property, plant and equipment. Improvement costs associated with an asset leased to a third party via operating lease are also capitalised as part of the leased asset.

Lease revenue under an operating lease must be recognised by the lessor as income on either a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished

Initial direct costs incurred by a lessor which relate to an operating lease must be added to the cost of the leased asset by the lessor and expensed over the lease term in proportion to the lease income recognised in each financial year.

A modification to an operating lease shall be accounted for as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

7 SALE AND LEASEBACK

If an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying the provisions of the policy described in sections 4, 5 and 6.

If the transfer of an asset by the seller-lessee satisfies a performance obligation under the requirements of *FIN-40 Revenue*, it shall be accounted for as a sale of an asset as per *FIN-40 Revenue*. The seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. The buyer-lessor shall account for the purchase of the asset applying applicable standards, and for the lease applying the lessor accounting requirements in this policy.

If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, then the sales proceeds shall be adjusted as follows so that the sales proceeds are measured at fair value:

- any below-market terms shall be accounted for as a prepayment of lease payments; and
- any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

If the transfer of an asset by the seller-lessee does not satisfy the requirements of *FIN-40 Revenue* to be accounted for as a sale of the asset, the seller-lessee shall continue to recognise the transferred asset and shall recognise a financial liability equal to the transfer proceeds. It shall account for the financial liability applying AASB 9. The buyer-lessor shall not recognise the transferred asset and shall recognise a financial asset equal to the transfer proceeds. It shall account for the financial asset applying AASB 9.

8 RESTORATION OR ‘MAKE GOOD’ PROVISIONS

Leases of buildings and land generally require that the asset is restored in the condition that it was in when the lease was entered into.

AusNet Services has several long term leases including:

- Freshwater Place office space.
- Flinders Street office space.
- Lilydale depot.
- AMI tower sites.

Leases also need to be analysed to review options within them. For example, if a lease contract has an extension option or an option to buy the site and AusNet Services intends to exercise this option, then these should be considered and reflected in the expected timing of the make-good activities.

9 ONEROUS LEASES

For a non-cancellable lease that relates to office, warehouse or other space, a lease will be classified as onerous if the leased space is:

- Currently not occupied by the entity and not expected to be occupied in the future;
- Sub-let for lower rentals than the entity is presently obliged to pay under the original lease; or
- Currently occupied by the entity but assessed to be of no substantive benefit beyond a known future date.

In the reporting period in which it first becomes probable that the space will be of no substantive future benefit and any rental revenue from a sub-lease will be lower than the rental the entity is presently obliged to pay under the original lease, it will be necessary to recognise an onerous lease liability and an expense equal in amount to the total expected outlay under the lease (net of any probable sub-lease revenue), discounted using the interest rate implicit in the lease.

10 WIND FARMS & CONTRACTS WITH ASSET OWNERS OR GENERATORS

The following section gives an overview of whether connection assets should be treated as a lease, applying the steps to identify a lease as per section 5 and 6. As each connection is a separate arrangement, governed by separate contracts, judgement should be applied as to whether leasing applies.

Australian Energy Market Operator (AEMO) contracts

Any contracts with AEMO are out of scope for AASB 16 as the asset is part of a shared network and so fails the lease identification criteria (see section 5). The contract is also a tripartite agreement between AusNet, the customer, and AEMO. For example, the interface works (where AEMO is the customer) within the Salt Creek Wind Farm project are not in-scope, whereas the underlying connection assets (where Tilt Renewables are the customer) is in scope – see below.

Mondo unregulated transmission connection contracts

These contracts generally stipulate that AusNet will be responsible for connecting the wind farm or the owner's asset to the electricity network through the provision of connection services. Either the customer or AusNet may be responsible for constructing connection assets to facilitate the connection services.

The assets in the connection works will be explicitly stated in the contract. These are not substitutable as the connection assets are fixed and dedicated to connecting the wind farm or the owner's assets.

The main economic benefits come about through exclusive use of the connection assets which the asset owner controls. In a scenario where there are rights to add other customers to the line (for example new housing development feeding off the dedicated line), the connection assets are unlikely to be a lease as the asset owner may not be entitled to substantially all of the capacity and economic benefits of the transmission line.

A lease exists within these contracts due to there being an identified asset, all benefits of the asset residing with the customer (i.e. not AusNet Services) and due to the customer having the right to direct how and for what purpose the asset is used. AusNet Services only retains protective rights in order to perform maintenance and to protect the grid.

Either the customer or AusNet Services will typically design the connection assets and where AusNet Services design the connection assets, the right to direct the use of the connection assets will reside with AusNet Services. Where the customer designs the assets, AusNet may be required to approve them based on the technical specifications required by AEMO. In this scenario, the right to direct the use of the connection assets will also reside with AusNet Services. Where AusNet Services have the right to direct the use of the connection assets, lease accounting will not apply. Instead, the accounting treatment under AASB 15 and *FIN10-40 Revenue* will apply.

11 EASEMENTS

When an easement is gifted to AusNet Services, (or has an option to purchase an easement for the nominal amount of $1), this will not be classified as a leased asset as there is no consideration given for the easement. Accounting policy *FIN10-42 Customer Contributions* should be applied.

With regards to purchased easements, they will only be classified as leased assets under this policy when AusNet Services have exclusive rights to the land under easement. Typically, this does not occur as the landowner maintains the right to use the servient land for farming activities and therefore AusNet Services will not have substantially all the economic benefits of the land under easement. Where this is the case, accounting policy *FIN 10-10 Property, plant and equipment* should be applied to the purchased easements.

12 LAND AND BUILDINGS

Some of AusNet's lease agreements contain additional charges. Charges such as cleaning, maintenance and outgoings, being the reimbursement of the landlord for costs such as land tax, council rates and water rates do not meet the definition of a lease. Parking can be considered to meet the definition of a lease where we are paying for a fixed number of spots. Pay-as-you-go parking arrangements will not be considered to be a lease.

Many of AusNet's lease agreements also include clauses for lease payment escalation based on CPI, a fixed rate explicit in the contract, or market rental review. Fixed rate escalations are included within the lease liability as they can be accurately calculated. Escalations based on CPI or market rental review are only included within the lease once the escalation is known, with any future escalations excluded.

13 LEGAL ENTITY SPLIT

In the majority of cases, leases are recognised in the legal entity that is stipulated in the contract. The exceptions to this are AusNet's major leases that are shared between the networks; for example, lease of Freshwater Place office space.

As the lease assets are part of AusNet's Regulated Asset Base (RAB) the leased asset's value is allocated based on the split of headcount by the employing entity.

14 SCHEDULE OF REVISIONS

Issue	Date	Author	Details of Change
1	26/02/2018	Heath Preston	Published
2	26/09/2019	Heath Preston	Updated for finalisation of compliance with new accounting standard AASB 16 *Leases*