AusNet Services Holdings Pty Ltd
ACN 086 006 859

Interim Financial Report

For the financial period ended 30 September 2015

Contents

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

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

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2015, and any public announcements made by AusNet Services Holdings Pty Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth).

The interim financial report was authorised for issue by the Directors on 16 November 2015.

Directors' report

The Directors of AusNet Services Holdings Pty Ltd (the Company) present their report on the general purpose interim financial report for AusNet Services Holdings and its controlled entities (the Group) for the financial period ended 30 September 2015.

The immediate parent of the Company is AusNet Holdings (Partnership) Limited Partnership. The ultimate Australian parent of the Company is AusNet Services Ltd (AusNet Services) since 18 June 2015 (previously AusNet Services (Distribution) Ltd).

Directors

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

Nino **Ficca** (Managing Director)

Adam **Newman**

Charles **Popple**

Dividends

No dividends were paid and/or approved to shareholders during the financial period.

Review of operations for the period ended 30 September 2015

This discussion and analysis is provided to assist readers in understanding the general purpose interim financial report.

	30 September 2015 $M	30 September 2014 $M	Movement $M	%
Revenue	722.8	628.7	94.1	15.0
EBITDA	439.3	311.6	127.7	41.0
NPAT	426.5	74.5	352.0	472.5

The Group achieved earnings before interest, tax, depreciation and amortisation (EBITDA) for the period ended 30 September 2015 of $439.3 million, an increase of $127.7 million or 41.0 per cent over the previous corresponding period. This was largely due to revenue increases driven by price and volume changes in electricity and gas distribution as well as the prior period recognition of a provision for AMI customer rebates of $37.5 million and impairment of AMI assets of $15.0 million.

The Group's revenues increased by 15.0 per cent to $722.8 million. The Group achieved a net profit after tax (NPAT) of $426.5 million, an increase of $352.0 million or 472.5 per cent compared to the previous period. This increase is largely due to income tax benefit recognised in relation to the new tax consolidated group.

Directors' report (continued)

Review of operations for the period ended 30 September 2015 (continued)

The Group derives most of its earnings from two regulated energy network businesses, which include an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria. A summary of the Group's revenues and results by operating segment for the period ended 30 September 2015 is set out below:

Electricity distribution business

	30 September 2015	30 September 2014	Movement	%
Segment revenue ($M)	530.6	447.7	82.9	18.5
Segment result - EBITDA ($M)	332.6	213.8	118.8	55.6
Volume (GWh)	4,067	3,860	207	5.4
Connections	685,435	673,254	12,181	1.8
Capital expenditure ($M)	198.8	250.2	(51.4)	(20.5)

AusNet Services' electricity distribution revenue growth has been driven by a combination of regulated price increases for both electricity distribution and AMI revenues and a cooler six month period to 30 September 2015 compared to the previous period. Along with an increase in customer connections, this has driven the 5.4 per cent increase in volume.

The electricity distribution business contributed $332.6 million in EBITDA for the period ended 30 September 2015, a $118.8 million increase compared to the previous period. This increase is due to the revenue increase as well as $52.5 million AMI adjustments for customer rebates and impairment recognised in the prior period. The current period also includes $10 million of costs for the Yarram and Mickleham bushfire class actions.

The decline in electricity distribution capital expenditure is due to a number of factors, including benefits from lower unit rates and capital efficiency measures, prudent management of capex at the end of the existing EDPR period, lower customer demand for augmentation, the completion of a number of zone substation rebuild projects in the prior year, and lower IT spend due to the implementation of the enterprise-wide SAP solution. In addition, there has been a change in the spend profile for asset replacement, with the prior year including a greater proportion of the spend in the first half compared to the current year forecast. This decline is somewhat offset by a $17 million increase in expenditure on the metering program.

Metering Program Update

The IT stabilisation works and rollout of a wireless mesh communications network under the AMI program is continuing. AusNet Services expects to complete work on its core systems by the end of calendar 2016 and finalise the conversion of meters to remotely provide data to market by early calendar 2017. Total capital expenditure incurred on the AMI program during the six months to 30 September 2015 was $53.9 million vs $36.7 million in the prior period.

In July 2015, AusNet Services made an administrative undertaking to the Essential Services Commission (ESC), setting out the timeframes by which the compliance targets under the Cost Recovery Order in Council (CROIC) will be met. In accordance with this undertaking, AusNet Services will regularly report to the ESC on progress against the key milestones of the AMI program. AusNet Services' progress in achieving the compliance targets will be subject to independent audits in August 2016 and February 2017.

Directors' report (continued)

Review of operations for the period ended 30 September 2015 (continued)

Gas distribution business

	30 September 2015	30 September 2014	Movement	%
Segment revenue ($M)	130.9	117.5	13.4	11.4
Segment result - EBITDA ($M)	104.8	92.0	12.8	13.9
Volume (PJ)	46.0	40.8	5.2	12.7
Connections	654,587	640,793	13,794	2.2
Capital expenditure ($M)	46.8	44.0	2.8	6.4

The gas distribution business revenues for the period increased $13.4 million largely due to the increase in volumes due to a cold winter in this period and a warmer winter in the comparative period. The gas distribution business contributed $104.8 million in EBITDA, an increase of $12.8 million over the previous period primarily as a result of the higher revenues.

Select Solutions business

	30 September 2015	30 September 2014	Movement	%
Segment revenue ($M)	61.3	63.5	(2.2)	(3.5)
Segment result - EBITDA ($M)	1.9	3.6	(1.7)	(47.2)

Select Solutions provides asset intelligence and end to end metering services. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners and telecommunications companies.

Select Solutions contributed $61.3 million in total revenues for the period ended 30 September 2015. Revenue decreased compared to the prior period due to the negotiated cessation of cost pass-through gas meter procurement activity with a large customer from April 2015 ($10 million) offset by new contracts and growth in existing contracts. Select Solutions contributed $1.9 million in EBITDA for the period ended 30 September 2015, a decrease of $1.7 million on the prior period as a result of higher mobilisation costs on new contracts and cost overruns on other contracts.

Material risks and uncertainties

AusNet Services is committed to understanding and effectively managing risk to provide greater certainty and confidence for its shareholders, employees, customers, suppliers and communities in which it operates. AusNet Services maintains oversight of its material business risks (financial and nonfinancial) at an enterprisewide level and reports regularly to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. In its 31 March 2015 annual report, the Group detailed the following principal risks which may materially impact the execution and achievement of its business strategy and financial prospects:

- AMI program risks;
- Taxation risks;
- Regulatory risks;
- Network risks;
- Funding and market risks; and
- Information and communication technology risks.

While these remain relevant risks and uncertainties to AusNet Services, an update is required in relation to taxation risks. Judgements have been made regarding the application of tax laws and the valuation of assets in the calculation of the tax base reset arising from the corporate restructure and formation of a single tax consolidated group. This has resulted in a $292.9 million tax benefit recognised in the income statement. The calculation is based on current tax law. There are pending amendments to the consolidation rules which if introduced with retrospective application could adversely impact the quantum of the tax base reset value.

Financial position as at 30 September 2015

Securityholders' equity was $2,174.0 million as at 30 September 2015, an increase of $830.2 million compared to 31 March 2015.

The Group's current liabilities exceed current assets by $410.7 million at 30 September 2015 due primarily to $409.0 million of current borrowings. The interim financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The Group is, and is expected to, continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt.

At 30 September 2015 the Group had available a total of $450 million of undrawn but committed non-current bank debt facilities and $22.1 million cash on deposit. The current borrowings of $409.0 million do not mature until 14 September 2016.

Capital management

Debt funding

The Company is utilised as AusNet Services' common funding vehicle (CFV). Companies within AusNet Services have access to AusNet Services facilities through the CFV.

In line with AusNet Services' Treasury Risk Policy, AusNet Services maintains a diversified debt portfolio by maturity and source. AusNet Services has an A- credit rating from Standard and Poor's and A3 from Moody's Investor Services.

Directors' report (continued)

Environmental regulation and climate change

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

Under the National Greenhouse and Energy Reporting (NGER) Act 2007, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. AusNet Services meets these thresholds and has lodged its NGER reporting with the Clean Energy Regulator for the period from 1 July 2014 to 30 June 2015.

Significant changes in the state of affairs

Restructure and simplification of the Stapled Group

On 18 June 2015, AusNet Services completed a corporate restructure under which the existing stapled entities became wholly owned by a new listed entity (AusNet Services Ltd).

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

Matters subsequent to the end of the financial period

Preliminary Electricity Distribution Price Review (EDPR) decision

On 29 October 2015, the Australian Energy Regulator (AER) released its preliminary decision on AusNet Services' 2016-20 EDPR. The preliminary decision is as follows:

Regulatory period	Current period 2011-15 $M	AusNet Services 2016-20 proposal $M	AER draft decision $M
Net Capex (Nominal)	1,579	1,866	1,614
Opex (Nominal)	928	1,260	1,191
Revenue (Nominal)	2,533	3,461	2,887

The preliminary decision also outlines metering revenues of $443 million, a 12 per cent reduction from AusNet Services' proposal. A large part of this reduction relates to the AER rejecting replacement capital expenditure for metering.

AusNet Services is reviewing the preliminary decision and will provide further information to the AER to challenge these outcomes. The final decision is expected by the end of April 2016.

With the exception of the matters outlined above, the Directors are not aware of any circumstances that have arisen since 30 September 2015 that have significantly affected or may significantly affect the operations, and the results of those operations, or the state of affairs of the Group in the financial period subsequent to 30 September 2015.

Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 9 and forms part of the Directors' report for the period ended 30 September 2015.

Directors' report (continued)

Rounding of amounts

The Group is a company of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off to the nearest hundred thousand dollars.

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

Nino Ficca
Managing Director

Melbourne
16 November 2015

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

To: the directors of AusNet Services Holdings Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the interim period ended 30 September 2015 there have been:

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

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

KPMG

KPMG

Paul McDonald

Partner

Melbourne

16 November 2015

Consolidated interim income statement
For the period ended 30 September 2015

	Notes	**30 September 2015 $M**	30 September 2014 $M
Revenue	2	**722.8**	628.7
Expenses, excluding finance costs		**(427.8)**	(458.6)
Profit from operating activities		**295.0**	170.1
Finance income	4	**84.0**	65.3
Finance costs	4	**(175.4)**	(167.3)
Net finance costs		**(91.4)**	(102.0)
Profit before income tax		**203.6**	68.1
Income tax benefit	5	**222.9**	6.4
Profit for the period		**426.5**	**74.5**

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

Consolidated interim statement of comprehensive income

For the period ended 30 September 2015

	30 September 2015 $M	30 September 2014 $M
Profit for the period	**426.5**	74.5
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	**33.3**	(10.6)
Income tax on movement in defined benefit fund	**(10.0)**	3.2
	23.3	(7.4)
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	**(27.9)**	19.7
Income tax on movement in hedge reserve	**(15.9)**	(5.9)
	(43.8)	13.8
Other comprehensive income for the period, net of income tax	**(20.5)**	6.4
Total comprehensive income for the period	**406.0**	80.9

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

Consolidated interim statement of financial position

As at 30 September 2015

	Notes	**30 September 2015 $M**	31 March 2015 $M
ASSETS			
Current assets			
Cash and cash equivalents		**22.1**	739.8
Receivables		**181.5**	423.5
Inventories		**43.9**	35.7
Derivative financial instruments		**50.2**	129.0
Other assets		**24.1**	18.8
Total current assets		**321.8**	1,346.8
Non-current assets			
Receivables		**2,454.0**	2,625.6
Property, plant and equipment		**5,511.5**	5,460.4
Intangible assets		**503.9**	456.0
Derivative financial instruments		**812.2**	522.6
Other assets		**5.4**	3.4
Total non-current assets		**9,287.0**	9,068.0
Total assets		**9,608.8**	10,414.8
LIABILITIES			
Current liabilities			
Payables and other liabilities		**244.0**	425.0
Borrowings	6	**409.0**	776.7
Provisions		**67.4**	91.1
Derivative financial instruments		**12.1**	44.9
Total current liabilities		**732.5**	1,337.7
Non-current liabilities			
Payables and other liabilities		**24.3**	744.3
Borrowings	6	**6,342.5**	6,355.3
Provisions		**36.0**	61.0
Derivative financial instruments		**158.8**	209.1
Deferred tax liabilities		**140.7**	363.6
Total non-current liabilities		**6,702.3**	7,733.3
Total liabilities		**7,434.8**	9,071.0
Net assets		**2,174.0**	1,343.8
EQUITY			
Equityholders of AusNet Services Holdings Pty Ltd			
Contributed equity	7	**1,063.9**	640.0
Reserves		**(114.7)**	(71.2)
Retained profits		**1,224.8**	775.0
Total equity		**2,174.0**	1,343.8

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

Consolidated interim statement of changes in equity

For the period ended 30 September 2015

	Notes	Contributed equity $M	Share based reserve $M	Hedge reserve (i) $M	Retained profits $M	Total equity $M
30 September 2015						
Balance as at 1 April 2015		640.0	-	(71.2)	775.0	1,343.8
Total comprehensive income for the period						
Profit for the period		-	-	-	426.5	426.5
Other comprehensive income		-	-	(43.8)	23.3	(20.5)
Total comprehensive income for the period		**-**	**-**	**(43.8)**	**449.8**	**406.0**
Transactions with owners, recorded directly in equity						
New shares issued	7	423.9	-	-	-	423.9
Share based payments		-	0.3	-	-	0.3
Total transactions with owners		**423.9**	**0.3**	**-**	**-**	**424.2**
Balance as at 30 September 2015		**1,063.9**	**0.3**	**(115.0)**	**1,224.8**	**2,174.0**
30 September 2014						
Balance as at 1 April 2014		640.0	-	(57.0)	687.8	1,270.8
Total comprehensive income for the period						
Profit for the period		-	-	-	74.5	74.5
Other comprehensive income		-	-	13.8	(7.4)	6.4
Total comprehensive income for the period		-	-	**13.8**	**67.1**	**80.9**
Balance as at 30 September 2014		**640.0**	-	**(43.2)**	**754.9**	**1,351.7**

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

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

Consolidated interim statement of cash flows

For the period ended 30 September 2015

	30 September 2015 $M	30 September 2014 $M
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**752.0**	651.3
Payments to suppliers and employees (inclusive of goods and services tax)	**(395.3)**	(324.2)
Payment of MSA termination fee (inclusive of goods and services tax)	**-**	(35.0)
Finance income received	**74.7**	64.0
Finance costs paid	**(166.0)**	(166.3)
Net cash inflow from operating activities	**265.4**	189.8
Cash flows from investing activities		
Payments for property, plant and equipment	**(226.2)**	(319.7)
Proceeds from sale of property, plant and equipment	**-**	0.3
Net cash outflow from investing activities	**(226.2)**	(319.4)
Cash flows from financing activities		
Proceeds from loans with related parties (i)	**171.6**	-
Repayment of loans with related parties (i)	**(227.4)**	(66.2)
Proceeds from borrowings	**146.0**	799.3
Repayment of borrowings	**(847.1)**	(363.5)
Net cash (outflow)/inflow from financing activities	**(756.9)**	369.6
Net (decrease)/increase in cash held	**(717.7)**	240.0
Cash and cash equivalents at the beginning of the period	**739.8**	353.6
Cash and cash equivalents at the end of the period	**22.1**	593.6

(i) Certain subsidiary companies provide transactional banking facilities for other entities within the AusNet Services Group and receipts and payments are recorded through intra group loans. Such transactions, which took place during the financial period, have been treated as cash flows because the transactions would have resulted in a cash flow to the other entities within the AusNet Services Group had those entities maintained their own banking facilities. In addition during the period intercompany tax balances were settled through a series of non-cash loan settlements/issuances and equity injections (refer note 7).

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

Condensed notes to the consolidated interim financial statements
30 September 2015

Contents

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the interim financial report are set out below.

(a) Basis of preparation

The consolidated general purpose interim financial report, prepared by a for-profit entity, for the period ended 30 September 2015, represents the consolidated interim financial statements of the Group, which comprises AusNet Services Holdings Pty Ltd and its subsidiaries.

The consolidated general purpose interim financial report has been prepared in accordance with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*.

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2015 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act*.

This general purpose interim financial report is presented in Australian dollars.

The interim financial statements were approved by the Board of Directors on 16 November 2015.

The Group’s current liabilities exceed current assets by $410.7 million at 30 September 2015 primarily due to $409.0 million of current borrowings. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt.

At 30 September 2015 AusNet Services has available a total of $450 million of undrawn but committed non-current bank debt facilities and $22.1 million cash on deposit. The current borrowings of $409.0 million does not mature until 14 September 2016.

(b) Corporate restructure

On 18 June 2015, AusNet Services completed a restructure whereby existing stapled entities became wholly-owned by a new listed entity (AusNet Services Ltd). The restructure resulted in an increase in the tax base of the Group's assets due to the application of the tax consolidation provisions which resulted in a decrease to deferred tax liabilities and a decrease to tax expense.

(c) Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2015. There have been no new accounting standards relevant to the Group adopted during the period except as follows:

(i) Early adoption of AASB 9 Financial Instruments

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

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

Note 1 Summary of significant accounting policies (continued)

(c) Significant accounting policies (continued)

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

Item	Accounting policy change	Impact of change
Hedge relationships	Existing hedges under AASB 139 can only continue if they satisfy the requirements for continuing hedge relationships under AASB 9. Risk components that are separately identifiable and reliably measurable are eligible as hedged items, including aggregated exposures. Effectiveness measurement testing is required only on a prospective basis and new criteria include the existence of an economic relationship between the hedged item and the hedging instrument.	AusNet Services had certain existing cash flow hedges that didn't satisfy the requirements of continuing hedge relationships under AASB 9. These hedges have been de-designated on 1 April 2014, with the associated derivative instruments and underlying borrowings redesignated in new cash flow hedges. Certain foreign currency debt previously de-designated under AASB 139 has also been included in these cash flow hedges. The cumulative loss in the hedge reserve on 1 April 2014 has remained in the hedge reserve and will unwind over the life of the hedges. There is no material impact on the income statement as a result of this de-designation and redesignation. It is anticipated that these changes will reduce in future the circumstances under which AusNet Services recognises hedge ineffectiveness, or discontinues hedge accounting and recognises a dedesignation gain or loss.
Foreign currency basis	AASB 9 specifically allows for foreign currency basis spreads to be separated and excluded from the designation of a financial instrument as the hedging instrument.	A number of existing hedge relationships under AASB 139 included foreign currency basis. AusNet Services has elected to restructure these hedge relationships and separately account for foreign currency basis spreads. The cumulative change in the fair value of foreign currency basis spreads is recognised in other comprehensive income. The currency basis charge included in the original cost of the derivative instrument is recognised in the income statement over the life of the instrument. There is no material impact to the income statement as a result of this change.
Impairment of financial assets	Impairment of financial assets, including trade receivables, is recognised based on the expected credit losses of the assets. These are determined by discounting the weighted average expected future cash flows and comparing to the carrying value of the asset. There is no change in the classification of financial assets as a result of applying AASB 9.	There is no material impact on the income statement or statement of financial position as a result of this change.

Note 1 Summary of significant accounting policies (continued)

(c) Significant accounting policies (continued)

(ii) Change in discount rates for employee liabilities

From 30 June 2015, Australian entities are required to use corporate bond rates, rather than Government bond rates to discount their post-employment benefits and other long-term employee liabilities. This is a change in accounting estimate rather than a change in accounting policy and as such is applied prospectively by AusNet Services. The impact of this change was not material to the profit and loss of the Group, however the impact on the defined benefit obligation resulted in a $24.3 million ($17.0 million after tax) increase in other comprehensive income and the net assets of the Group.

(d) Other presentation changes

Following the completion of several major software projects, AusNet Services has reclassified software assets to intangible assets (previously property, plant & equipment). The change in accounting policy has resulted in the restatement of 31 March 2015 statement of financial position reducing the value of property, plant and equipment by $88.0 million and increasing intangible assets by the same amount. In addition, the useful life of software assets has been changed from 3-5 years to 3-10 years.

(e) Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the interim financial report have been rounded off to the nearest hundred thousand dollars.

Note 2 Segment information

(a) Description of reportable segments

The Group is organised into the following segments:

(i) Electricity distribution

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

(ii) Gas distribution

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

(iii) Select Solutions

Select Solutions provides asset intelligence and end-to-end metering services, to external parties and AusNet Services. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners and telecommunications companies.

Note 2 Segment information (continued)

(b) Reportable segment financial information

	Electricity distribution	Gas distribution	Select Solutions	Consolidated
30 September 2015	**$M**	**$M**	**$M**	**$M**
Regulated revenue	522.6	128.6	-	651.2
Customer contributions	6.4	1.1	-	7.5
Service revenue	-	-	60.3	60.3
Other revenue	1.6	1.2	1.0	3.8
Total segment revenue	**530.6**	**130.9**	**61.3**	**722.8**
Segment expense before depreciation and amortisation	(198.0)	(26.1)	(59.4)	(283.5)
Segment result - EBITDA (i)	**332.6**	**104.8**	**1.9**	**439.3**
Depreciation and amortisation	(112.4)	(28.4)	(3.5)	(144.3)
Net finance costs				(91.4)
Income tax benefit				222.9
Profit for the period				**426.5**
30 September 2014				
Regulated revenue	433.9	112.6	-	546.5
Customer contributions	10.3	4.4	-	14.7
Service revenue	-	-	53.3	53.3
Other revenue	3.5	0.5	10.2	14.2
Total segment revenue	**447.7**	**117.5**	**63.5**	**628.7**
Segment expense before depreciation and amortisation (ii)	(231.7)	(25.5)	(59.9)	(317.1)
Segment result - EBITDA (i)	**216.0**	**92.0**	**3.6**	**311.6**
Depreciation and amortisation	(109.3)	(30.2)	(2.0)	(141.5)
Net finance costs				(102.0)
Income tax benefit				6.4
Profit for the period				**74.5**

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

(ii) Electricity distribution segment for the period ended 30 September 2014 includes $37.5 million of Advanced Metering Infrastructure (AMI) customer rebates, and $15.0 million of AMI asset impairment.

(c) Notes to and forming part of the segment information

(i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the Group and AASB 8 *Operating Segments*. Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. The Cost Allocation Methodology as approved by the Australian Energy Regulator (AER) is used as the basis for allocating expenses to the relevant segment.

Note 3 Seasonality of operations

(a) Electricity distribution

Electricity distribution volumes display some seasonal variation with increased volumes in winter due to higher demand for heating and increased volumes in summer as a result of higher demand for air conditioning. However, the impact of seasonal volume variation on electricity distribution revenue is limited due to the tariff structure, which includes a fixed component and a contract demand capacity component. The high proportion of process-related consumption of commercial and industrial customers also limits seasonal variation in electricity distribution revenue.

(b) Gas distribution

Gas distribution volume is seasonal with a distinct winter peak due to gas demand for heating. A component of the seasonal revenue variation is mitigated due to the tariff structure, which includes a fixed component and a demand capacity-based component.

(c) Select Solutions

Select Solutions revenue is not seasonal. Select Solutions revenue is earned as the services are rendered.

Note 4 Net finance costs

	30 September 2015 $M	30 September 2014 $M
Finance income		
Interest income	**7.2**	7.1
Interest income - related parties	**76.8**	58.2
Total finance income	**84.0**	65.3
Finance costs		
Interest expense	**183.2**	171.5
Other finance charges - cash	**1.5**	1.7
Other finance charges - non-cash	**2.4**	2.5
(Gain)/loss on accounting for hedge relationships	**(7.8)**	(4.6)
Unwind of discount on provisions	**1.1**	1.2
Defined benefit net interest expense	**0.3**	-
Capitalised finance charges	**(5.3)**	(5.0)
Total finance costs	**175.4**	167.3
Net finance costs	**91.4**	102.0

Note 5 Taxation

Numerical reconciliation of income tax expense to prima facie tax payable

	30 September 2015 $M	30 September 2014 $M
Profit before income tax expense	**203.6**	68.1
Tax at the Australian tax rate of 30% (2014: 30%)	**61.1**	20.4
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Recognition of additional tax losses (i)		(24.6)
Impact of entry into new tax consolidated group (ii)	**(284.5)**	-
Prior year under/(over) provision	**0.8**	(1.4)
Sundry items	**(0.3)**	(0.8)
Income tax benefit	**(222.9)**	(6.4)

(i) In March 2015, AusNet Services and the Australian Taxation Office (ATO) settled all matters concerning intra-group financing arrangements and rights to future income issues. As a result of this settlement, the Group has recognised additional tax losses amounting to $24.6 million (tax-effected) that were previously not booked. In accordance with the tax funding agreement, these losses have been transferred to AusNet Services (Distribution) Ltd which is the head entity in the tax consolidated group.

(ii) Under the new corporate structure, AusNet Services Ltd has formed a single tax consolidated group that replaces the previous two tax consolidated groups of AusNet Services Distribution and AusNet Services Transmission. The tax bases of the assets of the Distribution Group have been reset with a valuation uplift of $976.3 million ($292.9 million tax effected), offset by the reversal of historical deferred tax on derivative financial instruments ($8.4 million).

Note 6 Borrowings

	Maturity date	30 September 2015 $M	31 March 2015 $M
Current borrowings			
Commercial paper		**-**	94.6
Swiss franc (CHF) senior notes (i)		**-**	646.1
US dollar (USD) senior notes (i)	Sep 2016	**409.0**	-
Bank debt facilities		**-**	36.0
Total current borrowings		**409.0**	776.7
Non-current borrowings			
US dollar (USD) senior notes (i)	Dec 2016	**60.4**	434.4
Bank debt facilities	2017 - 2019	**422.4**	472.1
Swiss franc (CHF) senior notes (i)	2017 - 2019	**781.4**	718.6
Domestic medium term notes	2017 - 2024	**1,414.2**	1,414.2
Pound sterling (GBP) senior notes (i)	2018	**589.9**	540.9
Floating rate notes	2020	**99.8**	99.7
Euro (EUR) senior notes (i)	2020 - 2027	**2,333.9**	2,076.1
Hong Kong dollar (HKD) senior notes (i)	2020 - 2028	**410.6**	376.6
Japanese yen (JPY) senior notes (i)	2024	**61.4**	55.9
Norwegian kroner (NOK) senior notes (i)	2029	**168.5**	166.8
Total non-current borrowings		**6,342.5**	6,355.3
Total borrowings (ii)		**6,751.5**	7,132.0

(i) The carrying value of foreign currency borrowings are translated at spot rate as at balance date. The foreign currency risk associated with these borrowings is hedged through the use of cross-currency swaps.

(ii) The fair value of total borrowings as at 30 September 2015 is $7,234.0 million (31 March 2015: $7,728.4 million). This fair value measurement uses significant market observable data, and therefore is a level two measurement within the fair value hierarchy as per AASB 13 *Fair Value Measurement*. The valuation techniques applied are consistent with those applied in the consolidated financial report as at and for the year ended 31 March 2015.

The Group has $450 million of undrawn but committed non-current bank debt facilities and $22.1 million cash on deposit as at 30 September 2015. AusNet Services has an A- credit rating from Standard and Poor's and A3 from Moody's Investor Services.

Note 7 Equity

Movements in ordinary share capital

Date	Details	Number of shares	$M
1 April 2015	Opening balance	639,486,731	640.0
31 May 2015	Share issue (i)	423,875,211	423.9
30 September 2015	Closing balance	1,063,361,942	1,063.9

(i) Additional equity was injected into AusNet Services Holdings Pty Ltd to enable the settlement of outstanding intercompany tax balances upon restructure of the AusNet Services Group.

Note 8 Financial risk management

The Directors and other key management personnel of AusNet Services are engaged to provide services to the Group and are not exclusive to any particular entity within the Group. Accordingly, funding and other policy matters are managed for the whole of the Group and not on an individual entity basis.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. The internal audit department periodically reviews compliance with financial risk management policies and exposure limits.

The objective of hedging activities carried out by the Group is to minimise the exposure to changes in interest rates and foreign exchange rates. Changes in interest rates are hedged by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant regulated business for each regulatory reset period.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial report as at and for the year ended 31 March 2015.

Note 9 Fair value measurement

Derivative financial instruments are recognised at fair value and are measured in accordance with generally accepted pricing models based on discounted cash flow analysis. Appropriate transaction costs are included in the determination of net fair value. These pricing models use significant market observable data as well as market corroboration based on active quotes. As such, fair value measurements are deemed level two within the fair value hierarchy as per AASB 13 *Fair Value Measurement*. The Group does not have any financial instruments which would be categorised as either level one or three of the fair value hierarchy.

The valuation techniques applied by the Group are consistent with those applied and disclosed in the consolidated financial report as at and for the year ended 31 March 2015.

The Group also has a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings, the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 30 September 2015.

Note 10 Critical accounting estimates and judgements

The preparation of the financial report requires management to make estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

In preparing this consolidated interim financial report, the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 March 2015. Some of the critical judgements and estimates used by management in applying the Group's accounting policies for the period ended 30 September 2015 have been updated to reflect the latest available information. These updates have not had a significant impact on the financial performance or financial position of the Group for the period ended 30 September 2015.

Judgments have been made regarding the application of tax laws and the valuation of assets in the calculation of the tax base reset arising from the corporate restructure and formation of a single tax consolidated group. This has resulted in a $292.9 million tax benefit being recognised in the income statement. The calculation is based on current tax law. There are pending amendments to the consolidation rules which if introduced with retrospective application could adversely impact the quantum of the tax base reset value. AusNet Services has applied for a binding private ruling from the ATO in relation to the process and methodology of this reset, which is expected to be received before the end of calendar 2015. If the ruling is not in AusNet Services favour or if the ATO forms a different view on the valuations applied, then this may result in an adjustment to the tax benefit recognised.

Note 11 Contingent liabilities

AusNet Services is involved in various legal and administrative proceedings and various claims on foot, including two bushfire class actions relating to fires that occurred in February 2014. In the opinion of AusNet Services, the ultimate resolution of these matters should not have a material effect on the consolidated financial position, results of operations or cash flows.

Other than listed above, the Directors are not aware of any contingent liabilities as at 30 September 2015.

Note 12 Events occurring after the balance sheet date

(a) Preliminary Electricity Distribution Price Review (EDPR) decision

On 29 October 2015, the Australian Energy Regulator (AER) released its preliminary decision on AusNet Services' 2016-20 EDPR. The preliminary decision is as follows:

Regulatory period	Current period 2011-15 $M	AusNet Services 2016-20 proposal $M	AER draft decision $M
Net Capex (Nominal)	1,579	1,866	1,614
Opex (Nominal)	928	1,260	1,191
Revenue (Nominal)	2,533	3,461	2,887

The preliminary decision also outlines metering revenues of $443 million, a 12 per cent reduction from AusNet Services' proposal. A large part of this reduction relates to the AER rejecting replacement capital expenditure for metering.

AusNet Services is reviewing the preliminary decision and will provide further information to the AER to challenge these outcomes. The final decision is expected by the end of April 2016.

(b) Other matters

Other than listed above, there has been no matter or circumstance that has arisen since 30 September 2015 up to the date of issue of this financial report that has significantly affected or may significantly affect:

(a) the operations in financial periods subsequent to 30 September 2015 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in financial periods subsequent to 30 September 2015, of the Group.

AusNet Services Holdings Pty Ltd

Directors' declaration

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

(a) the interim financial statements and notes set out on pages 10 to 25, are in accordance with the Corporations Act 2001, including:

  (i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 September 2015 and its performance for the six month period ended on that date; and

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

Signed in accordance with a resolution of the Directors.

Nino Ficca
Managing Director

Melbourne
16 November 2015

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

Report on the financial report

We have reviewed the accompanying interim financial report of AusNet Services Holdings Pty Ltd, which comprises the consolidated interim statement of financial position as at 30 September 2015, consolidated interim income statement, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the interim period ended on that date, notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 September 2015 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of AusNet Services Holdings Pty Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of AusNet Services Holdings Pty Ltd is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 September 2015 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Paul J McDonald

Paul McDonald
Partner

Melbourne

16 November 2015