AusNet Services Holdings Pty Ltd
ACN 086 006 859

Interim Financial Report

For the financial period ended 30 September 2018

AusNet Services Holdings Pty Ltd

Contents **Page**

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 of the Group for the year ended 31 March 2018 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 13 November 2018.

Directors' Report

Introduction

The Directors of AusNet Services Holdings Pty Ltd (the Company) present their report on the general purpose interim financial report for the Company and its controlled entities (we, us, our or the Group), for the financial period ended 30 September 2018.

The immediate parent of the Company is AusNet Holdings (Partnership) Limited Partnership. The ultimate Australian parent of the Company is AusNet Services Ltd, a company incorporated in Australia, which is a listed entity trading as AusNet Services.

Our Board of Directors

The persons listed below were Directors of AusNet Services Holdings Pty Ltd during the whole of the financial period and up to the date of this report unless otherwise noted.

Nino **Ficca** – *Managing Director*

Adam **Newman**

Alastair **Parker**

Interim review of operations

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

$M	30 September 2018	30 September 2017	Movement	%
Revenue	**643.4**	707.5	(64.1)	(9.1)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**400.1**	433.3	(33.2)	(7.7)
Net profit after tax	**84.2**	123.5	(39.3)	(31.8)
Capital expenditure	**279.9**	246.1	33.8	13.7

The period-on-period financial performance has arisen from the $64.1 million decrease in revenue. Regulated revenue decreased in electricity distribution due to reduced incentive revenues ($21.7 million in prior period, zero in the current period due to lower reliability performance in CY2016 as there is a two-year lag in receiving incentive revenues) and metering revenue hand back of previously received excess expenditures disallowed by the Australian Energy Regulator (AER). In gas distribution, revenues decreased due to the gas tariff regulatory price path. Commercial Energy Services revenues also reduced by $23.0 million as a result of exiting numerous service contracts in the prior period as part of a strategic refocus away from providing certain maintenance services.

Operating expenses decreased $30.9 million, of which $20.5 million was in Commercial Energy Services as a result of reduced costs following contract rationalisation and $11.4 million across the two regulated businesses as a result of continuation of our cost efficiency program (net of wage and contract price increases).

In addition, net finance costs increased $15.5 million as a result of hedge accounting losses and higher interest costs due to higher levels of debt and higher capital expenditure.

Capital expenditure has increased as a result of the Rapid Earth Fault Current Limiter (REFCL) program and higher customer connections have led to increased electricity distribution capital expenditure.

Interim review of operations (continued)

Electricity distribution business

	30 September 2018	30 September 2017	Movement	%
Segment revenue ($M)	**446.4**	473.5	(27.1)	(5.7)
Segment result - EBITDA ($M)	**277.2**	292.4	(15.2)	(5.2)
Volume (GWh)	**3,937**	4,021	(84)	(2.1)
Connections	**732,523**	712,375	20,148	2.8
Capital expenditure ($M)	**224.3**	196.7	27.6	14.0

Revenues fell due to lower incentive revenues ($21.7 million in prior period, zero in the current period due to lower reliability performance in CY2016) and a $19.5 million reduction in metering revenue, primarily due to the hand back of previously received excess expenditures disallowed by the Australian Energy Regulator (AER). Offsetting these is a $16.1 million increase in customer contributions, primarily new housing developments.

Operating expenses decreased $11.9 million as a result of the cost efficiency program, with outsourcing initiatives in vegetation management and corporate support functions, in particular, reducing costs.

Capital expenditure increased due to the $15.2 million increase in REFCL expenditure as the program was only in place for part of the prior comparative period as well as increases in customer connection works.

Future revenue impacts

Revenue for distribution services is recognised when those services are provided, based on the prevailing tariffs at the time. Our electricity distribution business is regulated by the AER and revenue is set on a calendar year basis which differs to our financial year. Given the nature of the regulatory model and how tariffs are set, there are a number of items that will impact future revenues for our electricity distribution business as follows:

- There is a difference between the regulated revenue recognised under our accounting policy, and the revenue cap under the Electricity Distribution Price Review (EDPR) determination. This difference is trued-up as an adjustment to tariffs in future periods. At 30 September 2018 we have a cumulative over-recovery of $5.7 million which will reduce our revenue in CY2018 and CY2019.
- The AER's decision on our 2016 Advanced Metering Infrastructure (AMI) Transition Charges Application will result in future revenue reduction of $34.2 million, $6.7 million in the remainder of the CY2018 and the residual occurring equally during CY2019 and CY2020.
- In CY2019, we will re-commence earning incentive revenues under the Service Target Performance Incentive Scheme (STPIS) and are entitled to $19.4 million as a result of our CY2017 network reliability performance of which we will receive approximately $9.7 million in CY2019 and $9.7 million in CY2020.

Gas distribution business

	30 September 2018	30 September 2017	Movement	%
Segment revenue ($M)	**152.6**	167.6	(15.0)	(8.9)
Segment result - EBITDA ($M)	**122.1**	137.6	(15.5)	(11.3)
Volume (PJ)	**42.8**	44.2	(1.4)	(3.2)
Connections	**701,682**	684,735	16,947	2.5
Capital expenditure ($M)	**48.6**	44.6	4.0	9.0

Regulated gas distribution revenues decreased due to the 9.4 per cent decrease in gas tariffs from 1 January 2018.

Operating expenses were positively impacted by our cost efficiency program.

The increase in capital expenditure reflects higher levels of customer connections.

Directors' Report (continued)

Interim review of operations (continued)

Commercial Energy Services

	30 September 2018	30 September 2017	Movement	%
Segment revenue ($M)	**44.4**	67.4	(23.0)	(34.1)
Segment result - EBITDA ($M)	**0.8**	3.3	(2.5)	(75.8)
EBITDA Margin (%)	**1.8**	4.9	(3.1)	(63.3)
Capital expenditure ($M)	**7.0**	4.8	2.2	45.8

The Commercial Energy Services business consists of specialised technology solutions to enable energy data and asset intelligence services.

The customers of this business primarily operate in the utility, renewables and essential infrastructure sectors of electricity, water, gas and rail.

Revenues decreased $23.0 million from the comparative period, which included several contracts that were exited in the prior year as part of a strategic refocus away from providing certain maintenance services. EBITDA margins have decreased as a result of this.

Capital expenditure in the current period primarily relates to the acquisition of motor vehicles.

Financial position

Total equity of the Group was $1,591.7 million as at 30 September 2018, a decrease of $255.4 million compared to 31 March 2018. The net profit recognised for the six-month period has been offset by dividends paid.

Our current liabilities exceed current assets by $81.1 million at 30 September 2018. This includes $451.4 million of current borrowings maturing in April 2019, offset by intercompany receivables. 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. In addition, at 30 September 2018 we have available a total of $700 million of undrawn but committed non-current bank debt facilities, $70 million of undrawn but committed current bank debt facilities and $158.7 million of cash. The next maturity is a $238.2 million Swiss franc bond due in April 2019 (face value).

Capital management

We manage our capital structure to maximise long-term returns to shareholders, as well as providing the flexibility to fund organic growth and other investment opportunities. An appropriate capital structure is also maintained to ensure an efficient cost of capital is available. Through our cash flows from operations and by maintaining an appropriate and prudent mix of debt and equity, we ensure that we achieve our targeted credit metrics that support an ‘A’ range credit rating.

Debt raising

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

In line with our Treasury Risk Policy, we maintain a diversified debt portfolio by maturity and source. AusNet Services has an A- credit rating from Standard and Poor’s and A3 from Moody’s Investor Services. This contributed to the successful completion of an A$200 million 25-year bond issue in May 2018. This issuance, along with the A$700 million of bank facilities secured in August 2018 for a combination of five, six and seven year terms, satisfies our refinancing requirements for at least the next twelve months.

Dividends

The following dividends were approved to shareholders during the financial period:

	Cents per share	Total dividend $M
FY19 dividend	32.08	341.0

Directors' Report (continued)

Material risks and uncertainties

We are committed to understanding and effectively managing risk to enhance our ability to deliver on our strategic objectives and meet expectations of our shareholders, employees, customers, suppliers and the communities in which we operate. We maintain oversight of our material business risks (financial and non-financial) at an enterprise-wide level, with regular reporting to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. In our 31 March 2018 annual report, we detailed the following principal risks which may materially impact the execution and achievement of our business strategy and financial prospects:

- Industry and regulatory risks;
- Network risks;
- Funding and market risks;
- Climate change and sustainability risks; and
- Information and communication technology risks.

We provide the following updates since the 31 March 2018 annual report:

Industry and regulatory risks update

Federal Government energy policy continues to be an area of significant uncertainty with the Federal Government abandoning its proposal in August 2018 for the introduction of the National Energy Guarantee (NEG).

In July 2018, the AER released a draft rate of return guideline. Overall, the approach to gearing, and to estimating the returns on equity and debt, is broadly consistent with that in current guidelines, with updated parameter estimates and data sources. The main impact is the proposed reduction in market risk premium from 6.5 to 6.0 per cent and the reduction in equity beta from 0.7 to 0.6. These impacts combined may reduce the rate of return in future revenue determinations by approximately 100 basis points, which would adversely affect profits and revenue determinations starting in FY2021 if implemented as drafted. A final guideline is expected in December 2018.

In November 2018, following formal information gathering, the AER released a discussion paper on the regulatory tax approach. This forms part of its review initiated by the Federal Minister for Energy in May highlighting a material difference between the regulatory allowance for tax costs and actual tax payments made. The AER has identified possible changes to the tax approach including recognising immediate expensing of capex, using the diminishing value approach for depreciable assets and reducing the lives for gas assets. The implementation of the suggested changes may adversely impact future revenues from the next regulatory reset period commencing 1 January 2021. We are in the process of responding to the discussion paper and a final report is expected in December 2018.

Rapid Earth Fault Current Limiter (REFCL) update

On 31 August 2018, the AER made a final decision on AusNet Services' contingent project application for tranche two of the REFCL installation program, approving total capital expenditure of $140 million, consistent with our application.

Since publishing the final decision for tranche one of the project, the Essential Services Commission Victoria (ESCV) completed its review of the voltage standards in the Victorian Electricity Distribution Code (VEDC). Of particular relevance to the tranche two decision, the revised VEDC that came into effect on 20 August 2018 identifies high voltage (HV) customers as being responsible for ensuring their electrical assets are able to withstand higher voltages occurring during REFCL operation.

To date, AusNet Services has spent $84 million on REFCL projects. Under the *Electricity Safety (Bushfire Mitigation) Regulations* 2013, AusNet Services is required to meet a defined quota of zone substations with compliant REFCLs by 1 May 2019 (tranche one), with additional targets by 1 May 2021 and 1 May 2023. In addition, the regulations also specify strict performance criteria that the REFCLs are required to operate under.

Some issues have been identified during the testing of installed REFCLs related to the technical characteristics of existing equipment at various sites, which means that the achievement of the “required capacity” under the regulations remains a challenge due to the new use of this technology and its interaction with the existing network. While we continue to actively work on resolving these issues, delays are expected to achieving compliance. Under the process prescribed in the *Electricity Safety Amendment (Bushfire Mitigation Civil Penalties Regime) Act* 2017 we intend to apply for extensions of time to Energy Safe Victoria (ESV) where required. The legislation prescribes substantial penalties if we do not achieve the defined quota by 1 May 2019 and if extensions are not granted.

As detailed in the March 2018 Financial Report, this program presents several other risks, including funding risk, technology risk, vendor risk, compliance risk and delivery risk. These risks continue to be present and are being actively managed.

Environmental regulation and climate change

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

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007 (Cth)*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. We meet these thresholds and have lodged our current year's NGER reporting with the Clean Energy Regulator for the period from 1 July 2017 to 30 June 2018.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial period

On 26 September 2018, the Company's Board approved the transfer of ownership of its shares from AusNet Holdings (Partnership) Limited Partnership to AusNet Services (Distribution) Pty Ltd. The transfer of shares of AusNet Electricity Services Pty Ltd and AusNet Gas Services Pty Ltd from AusNet (No.9) Pty Ltd to the Company was approved at the same meeting. These transactions were effected on 31 October 2018.

Rounding of amounts

AusNet Services is a company of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Instrument to the nearest hundred thousand dollars unless otherwise stated.

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

Nino Ficca
Managing Director

Melbourne
13 November 2018

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 of AusNet Services Holdings Pty Ltd for the half-year ended 30 September 2018 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 J McDonald

Paul J McDonald

Partner

Melbourne

13 November 2018

Consolidated interim income statement
For the period ended 30 September 2018

	Notes	**30 September 2018 $M**	30 September 2017 $M
Revenue	B.1	**643.4**	707.5
Use of system and associated charges		**(53.2)**	(54.5)
Employee benefit expenses		**(67.6)**	(77.7)
External maintenance and contractors services		**(48.5)**	(61.2)
Materials		**(13.2)**	(17.3)
Information technology and communication costs		**(19.0)**	(22.1)
Operating lease rental expenses		**(3.4)**	(6.4)
Administrative expenses		**(11.6)**	(11.2)
Disposal of property plant and equipment		**(10.4)**	(4.0)
Other costs		**(16.4)**	(19.8)
Total expenses excluding depreciation, amortisation, interest and tax		**(243.3)**	(274.2)
Earnings before interest, tax, depreciation and amortisation		**400.1**	433.3
Depreciation and amortisation		**(170.0)**	(162.5)
Profit from operating activities		**230.1**	270.8
Finance income	D.2	**58.2**	54.4
Finance costs	D.2	**(167.7)**	(148.4)
Net finance costs		**(109.5)**	(94.0)
Profit before income tax		**120.6**	176.8
Income tax expense		**(36.4)**	(53.3)
Profit for the period		**84.2**	123.5

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 2018

	30 September 2018 $M	30 September 2017 $M
Profit for the period	**84.2**	123.5
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	**3.2**	(0.8)
Income tax on movement in defined benefit fund	**(1.0)**	0.2
	2.2	(0.6)
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	**(3.7)**	(11.7)
Income tax on movement in hedge reserve	**2.4**	5.1
	(1.3)	(6.6)
Other comprehensive income for the period, net of income tax	**0.9**	(7.2)
Total comprehensive income for the period	**85.1**	116.3

Consolidated interim statement of financial position

As at 30 September 2018

	Notes	**30 September 2018 $M**	31 March 2018 $M
ASSETS			
Current assets			
Cash and cash equivalents		**158.7**	602.8
Receivables		**344.2**	271.8
Inventories		**42.0**	39.4
Derivative financial instruments		**107.0**	0.7
Other assets		**21.0**	17.3
Total current assets		**672.9**	932.0
Non-current assets			
Receivables		**2,026.2**	2,270.3
Property, plant and equipment	C.1	**6,205.5**	6,102.9
Intangible assets	C.2	**482.9**	487.3
Derivative financial instruments		**419.3**	501.6
Other assets		**36.8**	32.0
Total non-current assets		**9,170.7**	9,394.1
Total assets		**9,843.6**	10,326.1
LIABILITIES			
Current liabilities			
Payables and other liabilities		**248.5**	220.8
Provisions		**53.4**	58.8
Borrowings	D.1	**451.4**	465.4
Derivative financial instruments		**0.7**	77.7
Total current liabilities		**754.0**	822.7
Non-current liabilities			
Deferred revenue		**94.4**	81.1
Provisions		**48.3**	45.3
Borrowings	D.1	**6,968.0**	7,099.7
Derivative financial instruments		**139.2**	192.9
Deferred tax liabilities		**248.0**	237.3
Total non-current liabilities		**7,497.9**	7,656.3
Total liabilities		**8,251.9**	8,479.0
Net assets		**1,591.7**	1,847.1
EQUITY			
Contributed equity	D.3	**1,065.4**	1,064.9
Reserves		**(117.6)**	(116.3)
Retained profits		**643.9**	898.5
Total equity		**1,591.7**	1,847.1

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 2018

	Notes	Contributed equity $M	Hedge reserve (i) $M	Share based payment reserve $M	Retained profits $M	Total equity $M
30 September 2018		1,064.9	(117.0)	0.7	898.5	1,847.1
Balance as at 1 April 2018						
Total comprehensive income for the period						
Profit for the period		-	-	-	84.2	84.2
Other comprehensive income		-	(1.3)	-	2.2	0.9
Total comprehensive income for the period		**-**	**(1.3)**	**-**	**86.4**	**85.1**
Transactions with owners, recorded directly in equity						
Dividends	D.4	-	-	-	(341.0)	(341.0)
Share based payment reserve	D.3	0.5	-	-	-	0.5
Total transactions with owners		**0.5**	**-**	**-**	**(341.0)**	**(340.5)**
Balance as at 30 September 2018		**1,065.4**	**(118.3)**	**0.7**	**643.9**	**1,591.7**
30 September 2017						
Balance as at 1 April 2017		1,063.3	(17.8)	1.5	772.2	1,819.2
Total comprehensive income for the period						
Profit for the period		-	-	-	123.5	123.5
Other comprehensive income		-	(6.6)	-	(0.6)	(7.2)
Total comprehensive income for the period		**-**	**(6.6)**	**-**	**122.9**	**116.3**
Transactions with owners, recorded directly in equity						
Share based payment reserve		-	-	0.4	-	0.4
Total transactions with owners		**-**	**-**	**0.4**	**-**	**0.4**
Balance as at 30 September 2017		**1,063.3**	**(24.4)**	**1.9**	**895.1**	**1,935.9**

(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 2018

	30 September 2018 $M	30 September 2017 $M
Cash flows from operating activities		
Profit for the period	**84.2**	123.5
Add back interest, tax, depreciation	**315.9**	309.8
Other non-cash items	**(11.0)**	(1.2)
Working capital movement	**(97.6)**	(72.3)
Net interest paid	**(154.6)**	(152.5)
Net cash inflow from operating activities	**136.9**	207.3
Cash flows from investing activities		
Payments for property, plant and equipment (i)	**(268.1)**	(243.5)
Proceeds from sale of property, plant and equipment	**0.4**	0.3
Net cash outflow from investing activities	**(267.7)**	(243.2)
Cash flows from financing activities		
Repayments of loans with related parties	**(1.1)**	(41.9)
Proceeds from borrowings	**225.3**	583.5
Repayments of borrowings	**(537.5)**	(820.5)
Net cash outflow from financing activities	**(313.3)**	(278.9)
Net decrease in cash held	**(444.1)**	(314.8)
Cash and cash equivalents at beginning of the period	**602.8**	327.0
Cash and cash equivalents at end of the period	**158.7**	12.2

(i) Net finance costs include a credit of $5.1 million (2017: $3.3 million) for capitalised finance charges which is included in payments for property, plant and equipment.

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 2018

Contents

Section A Overview

(a) Basis of preparation

The consolidated general purpose interim financial report, prepared by a for-profit entity for the period ended 30 September 2018, represents the consolidated financial statements of the Group, which comprises AusNet Services Holdings Pty Ltd (the Company) and its subsidiaries. The ultimate Australian parent of the Company is AusNet Services Ltd, which is part of a consolidated group trading as AusNet Services (also referred to as us, our, we).

The financial report has been prepared:

- in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth);
- on a going concern basis, which contemplates the continuity of normal trading operations. The Group's current liabilities exceed current assets by $81.1 million at 30 September 2018 primarily due to $451.4 million of current borrowings, offset by intercompany receivables. The Group is, and is expected to continue, trading profitably, generating positive operating cash flows, and successfully refinancing maturing debt. In addition, at 30 September 2018 we have available a total of $700 million of undrawn but committed non-current bank debt facilities, $70 million of undrawn but committed current bank debt facilities and $158.7 million of cash. The next maturity is a $283.2 million Swiss franc bond due in April 2019 (face value);
- under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value; and
- with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Instrument 2016/191 issued by the Australian Securities and Investments Commission.

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 of the Group for the year ended 31 March 2018 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*.

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

The interim financial statements were approved by the Board of Directors on 13 November 2018.

Except for the adoption of AASB 15 *Revenue from Contracts with Customers*, 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 2018. For the period ended 30 September 2017, we have amended some categories of expenses to be consistent with how they are reviewed and analysed for internal management purposes.

(b) 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 applied by the Group in its consolidated financial report as at and for the year ended 31 March 2018. Some of the critical judgements and estimates used by management in applying the Group's accounting policies for the period ended 30 September 2018 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 as at and for the period ended 30 September 2018.

During the period, the Australian Taxation Office (ATO) completed a Pre-Lodgement Compliance Review (PCR) for the income years 31 March 2017 and 31 March 2016. The PCR identified matters in respect of which the ATO has sought additional information and where the interpretation of tax laws may affect the amount of provision for income tax and deferred tax balances recognised. While work is ongoing it is our current belief that these matters should not result in a material adverse adjustment.

(c) Change in accounting policies

AASB 15 was adopted from 1 April 2018, using the cumulative effect transition method. The cumulative effect transition method allows opening balances of the current period to be adjusted for transition to the new standard. There was no material impact to the 2019 interim financial report due to the adoption of AASB 15.

Section B Operating our business

This section highlights the performance of the Group for the period, including results by operating segment and analysis of revenue.

Note B.1 Segment information

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

(a) Description of reportable segments

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

(i) Electricity distribution

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

(ii) Gas distribution

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

(iii) Commercial Energy Services

The commercial energy services business consists of energy services and asset intelligence services. The customers of this business primarily operate in the utility, renewables and essential infrastructure sectors of electricity, water, gas and rail.

Note B.1 Segment information (continued)

(b) Reportable segment financial information

30 September 2018	Electricity distribution $M	Gas distribution $M	Commercial Energy Services $M	Inter-segment eliminations $M	Consolidated $M
Regulated revenue	408.9	143.0	-	-	551.9
Customer contributions	32.5	4.8	-	-	37.3
Service revenue	-	-	36.5	-	36.5
Other revenue	5.0	4.8	7.9	-	17.7
Total segment revenue	**446.4**	**152.6**	**44.4**	**-**	**643.4**
Segment expense before depreciation and amortisation	(169.2)	(30.5)	(43.6)	-	(243.3)
Segment result - EBITDA (i)	**277.2**	**122.1**	**0.8**	**-**	**400.1**
Depreciation and amortisation	(140.5)	(24.8)	(4.7)	-	(170.0)
Net finance costs					(109.5)
Income tax expense					(36.4)
Profit for the period					**84.2**
30 September 2017					
Regulated revenue	452.9	158.4	-	-	611.3
Customer contributions	16.4	9.0	-	-	25.4
Service revenue	-	-	58.0	-	58.0
Other revenue	4.2	0.2	9.4	(1.0)	12.8
Total segment revenue	**473.5**	**167.6**	**67.4**	**(1.0)**	**707.5**
Segment expense before depreciation and amortisation	(181.1)	(30.0)	(64.1)	1.0	(274.2)
Segment result - EBITDA (i)	**292.4**	**137.6**	**3.3**	**-**	**433.3**
Depreciation and amortisation	(136.2)	(22.4)	(3.9)	-	(162.5)
Net finance costs					(94.0)
Income tax expense					(53.3)
Profit for the period					**123.5**

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

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

(i) Accounting policies

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.

(ii) Inter-segment eliminations

Segment revenues, expenses and results include transactions between the segments that are eliminated on consolidation.

Note B.2 Revenue from contracts with customers

Disaggregated revenue

In the following table, revenue is disaggregated by revenue type and timing of recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (note B.1).

30 September 2018	**Electricity distribution**	**Gas distribution**	**Commercial Energy Services**	**Total**
	$M	**$M**	**$M**	**$M**
Timing of recognition				
At a point in time	46.2	13.5	34.6	94.3
Over time	399.7	139.1	9.8	548.6
Revenue from contracts with customers	445.9	152.6	44.4	642.9
Other income not in scope of AASB 15				
Lease income	0.1	-	-	0.1
Income from government grants	0.4	-	-	0.4
Total segment revenue	**446.4**	**152.6**	**44.4**	**643.4**

Note B.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. Electricity distribution revenue operates under a revenue cap, with the amount of total revenue fixed over the regulatory reset period. Any under/over recovery in a particular calendar year will be built into subsequent years' tariffs.

(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) Commercial Energy Services

Commercial Energy Services revenue is not seasonal and is earned as the services are rendered.

Section C Investing in our business

This section highlights the investments made by us into our non-current asset base, including the core network assets.

Note C.1 Property, plant and equipment

	Freehold land $M	Buildings $M	Easements $M	Electricity distribution network $M	Gas distribution network $M	Other plant and equipment $M	Capital work in progress $M	Total $M
30 September 2018								
Cost	24.5	74.6	4.6	6,170.3	2,177.3	534.6	322.9	**9,308.8**
Accumulated depreciation	-	(10.2)	-	(2,061.3)	(605.8)	(426.0)	-	**(3,103.3)**
Carrying amount as at 30 September 2018	**24.5**	**64.4**	**4.6**	**4,109.0**	**1,571.5**	**108.6**	**322.9**	**6,205.5**
31 March 2018								
Cost	24.5	72.8	4.6	6,031.5	2,138.6	540.0	283.1	**9,095.1**
Accumulated depreciation	-	(9.6)	-	(1,980.5)	(592.0)	(410.1)	-	**(2,992.2)**
Carrying amount as at 31 March 2018	**24.5**	**63.2**	**4.6**	**4,051.0**	**1,546.6**	**129.9**	**283.1**	**6,102.9**

Note C.2 Intangible assets

	Distribution licences $M	Goodwill $M	Software $M	Other intangible assets $M	Total $M
30 September 2018					
Cost	354.5	12.1	456.5	4.0	827.1
Accumulated amortisation	-	-	(340.5)	(3.7)	(344.2)
Carrying amount as at 30 September 2018	**354.5**	**12.1**	**116.0**	**0.3**	**482.9**
31 March 2018					
Cost	354.5	12.1	438.5	4.0	809.1
Accumulated amortisation	-	-	(318.2)	(3.6)	(321.8)
Carrying amount as at 31 March 2018	**354.5**	**12.1**	**120.3**	**0.4**	**487.3**

Note C.3 Capital expenditure

	30 September 2018 $M	30 September 2017 $M
Electricity distribution	**224.3**	196.7
Gas distribution	**48.6**	44.6
Commercial energy services	**7.0**	4.8
Total capital expenditure	**279.9**	246.1

Section D Financing our business

This section provides information relating to our capital structure and our exposure to financial risks, how they affect the Group's financial position and performance, and how those risks are managed. The Group's financial risk management objectives and policies are consistent with those disclosed in the Group's consolidated financial report as at and for the year ended 31 March 2018.

Note D.1 Borrowings

	Maturity date	**30 September 2018 $M**	31 March 2018 $M
Current borrowings			
Pound sterling (GBP) senior notes (i)	Jun 2018	**-**	461.4
Bank debt facilities	Oct 2018	**30.0**	4.0
Swiss franc (CHF) senior notes (i)	Apr 2019	**390.1**	-
Domestic medium term notes	Apr 2019	**31.3**	-
Total current borrowings		**451.4**	465.4
Non-current borrowings			
Swiss franc (CHF) senior notes (i)	2019	**-**	378.4
Floating rate notes (i)	2020	**99.9**	99.9
Euro (EUR) senior notes (i)	2020-2030	**2,603.4**	2,608.6
Hong Kong dollar (HKD) senior notes (i)	2020-2033	**828.5**	785.0
Domestic medium term notes (i)	2020-2043	**2,228.1**	2,063.8
Japanese Yen (JPY) senior notes (i)	2024	**62.8**	63.4
US dollar (USD) senior notes (i)	2026	**110.8**	103.3
Norwegian Kroner (NOK) senior notes (i)	2027-2029	**340.8**	333.8
United States dollar (USD) hybrid (i), (ii)	2076	**492.1**	464.7
Singapore dollar (SGD) hybrid (i), (ii)	2076	**201.6**	198.8
Total non-current borrowings		**6,968.0**	7,099.7
Total borrowings		**7,419.4**	7,565.1

(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 first call date for hybrid securities is September 2021.

The Group had $700 million of undrawn but committed non-current bank debt facilities, $70 million of undrawn but committed current bank debt facilities and $158.7 million cash on deposit as at 30 September 2018. AusNet Services has an A- credit rating from Standard and Poor's and an A3 credit rating from Moody's Investor Services

(a) 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 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 2018.

Note D.1 Borrowings (continued)

(a) Fair value measurement (continued)

The fair value of total borrowings as at 30 September 2018 is $7,983.4 million (31 March 2018: $8,152.3 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. The valuation techniques applied are consistent with those applied in the consolidated financial report as at and for the year ended 31 March 2018.

Note D.2 Net finance costs

	30 September 2018 $M	30 September 2017 $M
Finance income		
Interest income	**5.0**	1.9
Interest income – related parties	**53.2**	52.5
Total finance income	**58.2**	54.4
Finance costs		
Interest expense	**163.1**	153.9
Other finance charges - cash	**1.6**	1.5
Other finance charges - non-cash	**2.7**	1.2
Loss/(gain) on accounting for hedge relationships	**3.5**	(5.6)
Unwind of discount on provisions	**2.4**	1.1
Defined benefit net interest income	**(0.5)**	(0.4)
Capitalised finance charges	**(5.1)**	(3.3)
Total finance costs	**167.7**	148.4
Net finance costs	**109.5**	94.0

Note D.3 Equity

		30 September 2018 $M	31 March 2018 $M
Contributed equity			
Ordinary share capital	(a)	**1,063.3**	1,063.3
Contribution from AusNet Services Ltd		**2.1**	1.6
Total contributed equity		**1,065.4**	1,064.9

Note D.3 Equity (continued)

(a) Movements in ordinary share capital

Date	Details	Number of shares	$M
1 April 2018	Opening balance	1,063,361,942	1,064.9
30 September 2018	Contribution from AusNet Services Ltd (i)	-	0.5
30 September 2018	**Closing balance**	**1,063,361,942**	**1,065.4**
1 April 2017	Opening balance	1,063,361,942	1,063.3
30 September 2017	**Closing balance**	**1,063,361,942**	**1,063.3**

(i) This represents the accounting for the AusNet Services Group's share based payment arrangements where the Group grants awards to its employees that will be settled in the shares of the parent.

Note D.4 Dividends

The following dividends were approved by AusNet Services Holdings Pty Ltd during the current period.

Dividend	Paid by	Date declared	Cents per share	Total dividend $M
FY19 dividend	AusNet Services Holdings Pty Ltd	26 September 2018	32.08	341.0
Total dividend			**32.08**	**341.0**

Section E Other disclosures

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

Note E.1 Contingent liabilities and contingent assets

(a) Rapid Earth Fault Current Limiter (REFCL) penalty regime

To date, AusNet Services has spent $84 million on REFCL projects. Under the *Electricity Safety (Bushfire Mitigation) Regulations* 2013, AusNet Services is required to meet a defined quota of zone substations with compliant REFCLs by 1 May 2019 (tranche 1), with additional targets by 1 May 2021 and 1 May 2023. In addition, the regulations also specify strict performance criteria that the REFCLs are required to operate under.

Some issues have been identified during the testing of installed REFCLs related to the technical characteristics of existing equipment at various sites, which means that the achievement of the “required capacity” under the regulations remains a challenge due to the new use of this technology and its interaction with the existing network. While we continue to actively work on resolving these issues, delays are expected to achieving compliance. Under the process prescribed in the *Electricity Safety Amendment (Bushfire Mitigation Civil Penalties Regime) Act* 2017 we intend to apply for extensions of time to Energy Safe Victoria (ESV) where required. The legislation prescribes substantial penalties if we do not achieve the defined quota by 1 May 2019 and if extensions are not granted.

Given the complexities associated with the implementation of the REFCL program between now and 1 May 2019 and ongoing discussions with the ESV, it is not practicable to estimate the possible financial statement effect at this time.

(b) Other

AusNet Services is involved in various legal and administrative proceedings and various claims on foot, the ultimate resolution of which, in the opinion of AusNet Services, will not have a material effect on the consolidated financial position, results of operations or cash flows.

Other than as listed above, we are not aware of any contingent liabilities or assets as at 30 September 2018 (2017: $0).

Note E.2 Events occurring after the balance sheet date

(a) Transfer of shares

On 26 September 2018, the Company’s Board approved the transfer of ownership of its shares from AusNet Holdings (Partnership) Limited Partnership to AusNet Services (Distribution) Pty Ltd. The transfer of shares of AusNet Electricity Services Pty Ltd and AusNet Gas Services Pty Ltd from AusNet (No.9) Pty Ltd to the Company was approved at the same meeting. These transactions were effected on 31 October 2018.

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 30 September 2018 up to the date of issue of this financial report that has significantly affected or may significantly affect:

(a) the operations in the financial period subsequent to 30 September 2018 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in the financial period subsequent to 30 September 2018, of the Group.

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 9 to 24, 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 2018 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
13 November 2018

Independent Auditor's Review Report

To the shareholders of AusNet Services Holdings Pty Ltd

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of AusNet Services Holdings Pty Ltd.

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:

- giving a true and fair view of the ***Group's*** financial position as at 30 September 2018 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated interim statement of financial position as at 30 September 2018
- 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 half-year ended on that date
- Notes comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The Group comprises AusNet Services Holdings Pty Ltd (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibilities of the Directors 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*
- 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 for the review of the Interim Financial Report

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 2018 and its performance for the half-year 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 a Half-year Period 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.

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

KPMG

KPMG

Paul J McDonald

Partner

Melbourne

13 November 2018