

ASX & SGX-ST Release



12 November 2014

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TO: ASX Limited
Singapore Exchange Securities Trading Limited

AusNet Services Holdings Pty Ltd 2014/15 Half Year Results

Please find attached the Interim Financial Report of AusNet Services Holdings Pty Ltd for the financial period ended 30 September 2014.

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AFS Licence No. 294117 as responsible
entity for AusNet Services Finance Trust

AusNet Services Holdings Pty Ltd (formerly SPI Electricity & Gas Australia Holdings Pty Ltd)
ACN 086 006 859

Interim Financial Report

For the financial period ended 30 September 2014

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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 2014, 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 11 November 2014.

Directors' report

The Directors of AusNet Services Holdings Pty Ltd (the Company) present their report on the general purpose interim financial report of the consolidated entity (the Group) for the financial period ended 30 September 2014.

The immediate parent of the Company is AusNet Holdings (Partnership) Limited Partnership.

The ultimate Australian parent of the Company is AusNet Services (Distribution) Ltd (AusNet Services Distribution), a company incorporated in Australia, which is part of a listed stapled group trading as AusNet Services. AusNet Services comprises the Stapled Group of AusNet Services Distribution and its subsidiaries, AusNet Services (Transmission) Ltd (AusNet Services Transmission) and its subsidiaries, and AusNet Services Finance Trust. The Stapled Group is also referred to as the AusNet Services Group.

AusNet Services Holdings Pty Ltd, AusNet Holdings (Partnership) Limited Partnership, AusNet Services Distribution, AusNet Services Transmission, AusNet Services Finance Trust, and AusNet Services were formerly known as SPI Electricity & Gas Australia Holdings Pty Ltd, SPI Australia Holdings (Partnership) Limited Partnership, SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd, SP Australia Networks (Finance) Trust, and SP AusNet respectively up until 4 August 2014.

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)

Norman **Drew** (resigned effective 28 July 2014)

Adam **Newman**

Charles **Poppo**

Dividends

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

Review of operations for the period ended 30 September 2014

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

\$M	30 September 2014	30 September 2013	Movement	%
Revenue	628.7	625.8	2.9	0.5
EBITDA	311.6	357.6	(46.0)	(12.9)
NPAT	74.5	87.1	(12.6)	(14.5)

Directors' report

Review of operations for the period ended 30 September 2014 (continued)

The Group achieved earnings before interest, tax, depreciation and amortisation (EBITDA) for the period ended 30 September 2014 of \$311.6 million, a decrease of \$46.0 million or 12.9 per cent over the previous corresponding period. This was largely due to the recognition of a provision for Advanced Metering Infrastructure (AMI) customer rebates of \$37.5 million and impairment of AMI assets of \$15.0 million (refer to 'AMI program risks' section below).

The Group's revenues increased by 0.5 per cent to \$628.7 million. The Group achieved a net profit after tax (NPAT) of \$74.5 million, a decrease of \$12.6 million or 14.5 per cent compared to the previous period. This decrease is largely due to the AMI items, offset by a \$24.6 million income tax benefit recognised in relation to the settlement with the Australian Taxation Office (ATO). Refer to the 'ATO settlement' section within the 'Matters subsequent to the end of the financial period' below for further details regarding the settlement with the ATO.

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 2014 is set out below:

Electricity distribution business

	30 September 2014	30 September 2013	Movement	%
Segment revenue (\$M)	447.7	422.2	25.5	6.0
Segment result - EBITDA (\$M)	216.0	236.8	(20.8)	(8.8)
Volume (GWh)	3,860	3,902	(42)	(1.1)
Connections	673,254	663,163	10,091	1.5
Capital expenditure (\$M)	250.2	278.9	(28.7)	(10.3)

The Group's electricity distribution business contributed \$447.7 million in total revenues for the period ended 30 September 2014. Total revenue for electricity distribution increased by \$25.5 million or 6.0 per cent despite the slight decline in volumes distributed. This growth has been primarily driven by regulated price increases for both electricity distribution as well as AMI revenues. The electricity distribution price increase is due to a combination of regulated price path, as well as higher revenues under incentive schemes, somewhat offset by a price reduction for the pass-through of transmission use of system charges.

The electricity distribution business contributed \$216.0 million to EBITDA for the period ended 30 September 2014, which is a \$20.8 million decrease compared to the previous period. This reduction in EBITDA is significantly due to the \$37.5 million AMI customer rebates, as well as the \$15.0 million impairment of AMI assets, offset by increased revenues and a \$7.3 million reduction in expenses associated with the performance fees under the Management Service Agreements with SPI Management Services Pty Ltd (SPIMS) which was terminated on 31 March 2014.

A warmer six-month period to 30 September 2014 compared to previous period, along with changing consumer behaviours, have largely contributed to the decline in volume. However, these impacts have been mostly offset by the 1.5 per cent increase in customer numbers.

Of the total capital expenditure for electricity distribution of \$250.2 million, \$65.4 million was spent on asset replacement while a further \$56.7 million relates to various safety programs, including those highlighted in the Victorian Bushfire Royal Commission. The decrease in capital expenditure from the previous period is due to AMI, with completion of the meter and communication rollouts, and lower IT spend as AusNet Services undertook a technical review of the AMI solution. Refer to the 'AMI program risks' section within 'Material risks and uncertainties' below for further details.

Directors' report

Review of operations for the period ended 30 September 2014 (continued)

Gas distribution business

	30 September 2014	30 September 2013	Movement	%
Segment revenue (\$M)	117.5	138.4	(20.9)	(15.1)
Segment result - EBITDA (\$M)	92.0	118.6	(26.6)	(22.4)
Volume (PJ)	40.8	42.7	(1.9)	(4.4)
Connections	640,793	627,240	13,553	2.2
Capital expenditure (\$M)	44.0	44.4	(0.4)	(0.9)

The gas distribution business contributed \$117.5 million in total revenues for the period, a \$20.9 million decrease compared to the previous period. This is largely due to price reductions following a lower Weighted Average Cost of Capital (WACC) in the latest gas regulatory determination, with a 15.0 per cent price reduction on 1 July 2013, and a further 4.0 per cent price reduction on 1 January 2014. Lower industrial volumes contributed to a volume decline of 4.4 per cent.

The gas distribution business contributed \$92.0 million to EBITDA for the period ended 30 September 2014, a decrease of \$26.6 million over the previous period primarily as a result of lower revenues. In addition, a higher allocation of overhead costs to the gas business associated with management effort, relative to the other networks, has contributed to the EBITDA decline.

Select Solutions business

	30 September 2014	30 September 2013	Movement	%
Segment revenue (\$M)	63.5	65.2	(1.7)	(2.6)
Segment result - EBITDA (\$M)	3.6	2.2	1.4	63.6

Select Solutions provides metering, data and asset management solutions, including integrated mobile and spatial technologies, 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, transportation authorities and telecommunications companies.

Select Solutions contributed \$63.5 million in external revenues and \$3.6 million to EBITDA, for the period ended 30 September 2014.

Financial position as at 30 September 2014

Securityholders' equity was \$1,351.7 million as at 30 September 2014, an increase of \$80.9 million compared to 31 March 2014.

The Group's current liabilities exceed current assets by \$683.1 million at 30 September 2014 due primarily to \$1,312.0 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 2014 the Stapled Group has available a total of \$375 million of undrawn but committed non-current bank debt facilities and \$674.6 million cash on deposit. Of the current borrowings, \$574.1 million does not mature until 9 September 2015.

Directors' report

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' A- credit rating from Standard and Poor's and A3 from Moody's Investor Services contributed to the successful completion of bond issues during the current period, being:

- a NOK 900 million fifteen-year Norwegian kroner bond issue to raise \$160 million in June 2014; and
- a \$125 million ten-year Australian bond issue in June 2014.

Material risks and uncertainties

AMI program risks

The Victorian Government mandated the rollout of smart electricity meters in Victoria. It also established a range of functional and service level specifications for the program, as well as a framework for the regulated recovery of costs associated with the program pursuant to the AMI Cost Recovery Order in Council (CROIC) which allows for the recovery of prudent costs of implementing the AMI program.

As of the date of this report, AusNet Services has installed approximately 700,000 meters, out of a total fleet of 713,000. The remaining meters to be installed largely relate to inaccessible sites or customer refusals and AusNet Services continues to proactively manage these installations to ensure the full rollout of smart meters.

Whilst AusNet Services has successfully converted around 400,000 meters to remotely provide meter data to market, AusNet Services has encountered periods of significant instability in its AMI systems performance as the number of smart meters connected to its AMI systems has increased. In light of these issues, AusNet Services undertook a technical review of its AMI systems to address that instability.

The technical review was completed during the period and a remediation plan has been drawn up to stabilise the existing end-to-end metering systems and to complete the network coverage. AusNet Services believes that this approach is prudent and reasonable in all circumstances, and will yield a workable and cost-effective solution on an on-going basis. The future expenditure required to stabilise the existing AMI systems, to complete network coverage and complete the AMI Program has been estimated at \$175 million, with the vast majority of this expenditure expected to be incurred by 31 December 2015. As with all large-scale and complex projects there is a risk that further expenditure may be required or that the project will not remediate all issues with system performance.

AusNet Services estimates that the total amount subject to future regulatory approval for AMI after completion of the remediation program, compared to the current Australian Energy Regulator (AER) approved budget, is \$351 million. Of this total excess amount, \$70 million was incurred in calendar year 2013, and AusNet Services has lodged an Excess Expenditure Application seeking approval of this excess amount for pass-through. It is expected that the AER will provide a ruling on this application on 5 December 2014.

AusNet Services will seek to recover additional AMI Program expenditure within the regulatory framework. AusNet Services will also seek to recover other additional AMI expenditure in the usual course of the distribution price review process. The AER has discretion whether or not to approve any such applications for recovery of additional expenditure and as such, there is a risk that some or all of this expenditure will not be approved.

The Essential Services Commission (ESC) has concluded its audit of distribution businesses' compliance with the best endeavours obligations under the CROIC. The ESC found that AusNet Services "has not demonstrated that it used best endeavours, to the extent practicable, to meet the AMI rollout target, and has not demonstrated that it maintained an effective strategy to identify and manage risks." The ESC has indicated that it will continue to monitor AusNet Services' progress and require regular reporting. The ESC has noted in its report that it did not assess the efficiency and prudence of any AMI expenditure.

Directors' report

Material risks and uncertainties (continued)

AMI program risks (continued)

On 31 July 2014, AusNet Services advised that it may be required to make a payment of up to \$37.5 million under the Victorian Government's customer rebate policy. This policy requires AusNet Services to pay a fixed amount of \$125 per customer as a one-off lump sum for premises which do not have a smart meter installed that communicates remotely with the market by 31 March 2015. Based on the current program and further clarification from the Victorian Government, it is expected that this rebate will be paid in full by 30 June 2015. As a result, a provision has been raised for \$37.5 million of rebates that are expected to be paid.

Bushfire litigation risks

AusNet Services is, and has been, a defendant in litigation that has been brought in connection with the 7 February 2009 bushfires located at Beechworth, Kilmore East, and Murrindindi, respectively. In all three matters, AusNet Services has denied that it was negligent. AusNet Services alleges that its conduct was at all times reasonable, in compliance with technical regulations and reasonable in light of economic regulations applicable to AusNet Services.

On 16 May 2012, the Supreme Court of Victoria formally approved the settlement deed for the Beechworth bushfire class action. That settlement was reached without admission of liability by AusNet Services or any other party.

On 15 July 2014, AusNet Services announced that the parties to the Kilmore East bushfire class action had agreed to settle the action. The settlement was reached without admission of liability by AusNet Services or any other party. The settlement is subject to court approval, which is scheduled for hearing in November 2014.

The Murrindindi class action trial is scheduled to commence in February 2015. There are many variables associated with litigation and it is impossible to provide a prior assessment of the ultimate resolution of the Murrindindi proceeding. However, AusNet Services is vigorously defending the claim and rejects any assertion of negligence.

AusNet Services is also a defendant in litigation that has been brought in connection with the 9 February 2014 bushfires located at Yarram and Mickleham. AusNet Services also denies that it was negligent in relation to these bushfires and will vigorously defend these claims.

AusNet Services strongly holds the belief that it has consistently complied with its regulatory obligations, including in the year ended 31 March 2009 and in the year ended 31 March 2014. It is therefore reasonable to consider that AusNet Services' insurance and, if required, a claim to the regulator for pass-through of residual costs ultimately incurred in relation to the proceedings, would be sufficient to cover AusNet Services' liability, if any, associated with these bushfires. However, the ultimate resolution of these matters cannot be known with certainty.

AusNet Services has liability insurance which specifically provides cover for bushfire liability. AusNet Services reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice.

AusNet Services' safety record, network asset management and network maintenance programs are consistent with industry practice, and its bushfire mitigation and vegetation management programs comply with Electricity Safety (Bushfire Mitigation) Regulations. AusNet Services' bushfire mitigation and vegetation management programs are audited annually by Energy Safe Victoria. AusNet Services has consistently achieved a 'zero' bushfire mitigation index for the bushfire seasons since listing in 2005, including the 2008-09 and 2013-14 bushfire seasons.

Directors' report

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 2013 to 30 June 2014.

On 17 July 2014, the Federal Government approved the repeal of the carbon pricing mechanism, applicable from 1 July 2014.

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 period under review.

Matters subsequent to the end of the financial period

The Directors are not aware of any circumstances that have arisen since 30 September 2014 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 2014.

Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 10 and forms part of the Directors' report for the period ended 30 September 2014.

Directors' report

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
11 November 2014



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 2014 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

Michael Bray
Partner

Melbourne

11 November 2014

Consolidated interim income statement

For the period ended 30 September 2014

		30 September	30 September
		2014	2013
	Notes	\$M	\$M
Revenue	2	628.7	625.8
Expenses, excluding finance costs		(458.6)	(400.5)
Profit from operating activities		170.1	225.3
Finance income	4	65.3	92.7
Finance costs	4	(167.3)	(197.6)
Net finance costs		(102.0)	(104.9)
Profit before income tax		68.1	120.4
Income tax benefit/(expense)	5	6.4	(33.3)
Profit for the period		74.5	87.1

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 2014

	30 September 2014	30 September 2013
	\$M	\$M
Profit for the period	74.5	87.1
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	(10.6)	15.4
Income tax on movement in defined benefit fund	3.2	(4.6)
	(7.4)	10.8
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	19.7	62.1
Income tax on movement in hedge reserve	(5.9)	(18.6)
	13.8	43.5
Other comprehensive income for the period, net of income tax	6.4	54.3
Total comprehensive income for the period	80.9	141.4

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 2014

	Notes	30 September 2014 \$M	31 March 2014 \$M
ASSETS			
Current assets			
Cash and cash equivalents		593.6	353.6
Receivables		249.7	207.4
Inventories		42.3	38.8
Derivative financial instruments		56.0	-
Other assets		17.1	19.4
Total current assets		958.7	619.2
Non-current assets			
Receivables		2,536.7	2,470.6
Property, plant and equipment		5,399.0	5,260.9
Intangible assets		368.2	368.4
Derivative financial instruments		315.8	254.7
Other assets		2.5	0.6
Total non-current assets		8,622.2	8,355.2
Total assets		9,580.9	8,974.4
LIABILITIES			
Current liabilities			
Payables and other liabilities		161.5	214.4
Borrowings	6	1,312.0	673.6
Provisions		96.7	65.6
Derivative financial instruments		71.6	70.7
Total current liabilities		1,641.8	1,024.3
Non-current liabilities			
Payables and other liabilities		776.8	772.0
Borrowings	6	5,180.4	5,324.6
Provisions		44.8	31.9
Derivative financial instruments		257.3	223.3
Deferred tax liabilities		328.1	327.5
Total non-current liabilities		6,587.4	6,679.3
Total liabilities		8,229.2	7,703.6
Net assets		1,351.7	1,270.8
EQUITY			
Equityholders of AusNet Services Holdings Pty Ltd			
Contributed equity	7	640.0	640.0
Reserves		(43.2)	(57.0)
Retained profits		754.9	687.8
Total equity		1,351.7	1,270.8

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 2014

	Contributed equity \$M	Hedge reserve (i) \$M	Retained profits \$M	Total equity \$M
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
30 September 2013				
Balance as at 1 April 2013	640.0	(115.9)	588.2	1,112.3
Total comprehensive income for the period				
Profit for the period	-	-	87.1	87.1
Other comprehensive income	-	43.5	10.8	54.3
Total comprehensive income for the period	-	43.5	97.9	141.4
Balance as at 30 September 2013	640.0	(72.4)	686.1	1,253.7

- (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 2014

	30 September 2014 \$M	30 September 2013 \$M
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	651.3	643.8
Payments to suppliers and employees (inclusive of goods and services tax)	(324.2)	(329.5)
Payment of MSA termination fee (inclusive of goods and services tax) (i)	(35.0)	-
Finance income received	64.0	94.7
Finance costs paid	(166.3)	(187.0)
Net cash inflow from operating activities	189.8	222.0
Cash flows from investing activities		
Payments for property, plant and equipment	(319.7)	(337.4)
Proceeds from sale of property, plant and equipment	0.3	0.1
Net cash outflow from investing activities	(319.4)	(337.3)
Cash flows from financing activities		
Proceeds from loans with related parties (ii)	598.1	619.1
Repayment of loans with related parties (ii)	(664.3)	(654.0)
Proceeds from borrowings	799.3	981.9
Repayment of borrowings	(363.5)	(1,259.0)
Net cash inflow/(outflow) from financing activities	369.6	(312.0)
Net increase/(decrease) in cash held	240.0	(427.3)
Cash and cash equivalents at the beginning of the period	353.6	434.3
Cash and cash equivalents at the end of the period	593.6	7.0

- (i) Settlement of fees for the termination of the Management Services Agreements (MSAs) with SPI Management Services Pty Ltd (SPIMS) and Enterprise Business Services (Australia) Pty Ltd which were recognised in the financial year ended 31 March 2014. The net payment represents the termination fee of \$34.1 million plus recoverable GST, offset by SPIMS employee provisions transferred to the Group of \$2.6 million.
- (ii) 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.

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 2014

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Condensed notes to the consolidated interim financial statements

30 September 2014

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 general purpose interim financial report, prepared by a for-profit entity, for the period ended 30 September 2014, represents the consolidated interim financial statements for AusNet Services Holdings Pty Ltd (the Company) and its subsidiaries. The consolidated entity is also referred to as the Group. AusNet Services Holdings Pty Ltd was formerly known as SPI Electricity & Gas Australia Holdings Pty Ltd up until 4 August 2014.

This 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). Where the classification of items has been amended in the interim financial report, the comparative information has been restated to align to the revised classification unless otherwise noted.

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 2014 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 financial statements were approved by the Board of Directors on 11 November 2014.

The Group's current liabilities exceed current assets by \$683.1 million at 30 September 2014 primarily due to \$1,312.0 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 2014 the Stapled Group has available a total of \$375 million of undrawn but committed non-current bank debt facilities and \$674.6 million cash on deposit. Of the current borrowings, \$574.1 million does not mature until 9 September 2015.

(b) 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 2014. There have been no new accounting standards relevant to the Group adopted during the period.

(c) 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.

Condensed notes to the consolidated interim financial statements

30 September 2014

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 metering, data and asset management solutions, including integrated mobile and spatial technologies, to external parties as well as to all other segments of AusNet Services. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners, transportation authorities and telecommunications companies.

Condensed notes to the consolidated interim financial statements

30 September 2014

Note 2 Segment information (continued)**(b) Reportable segment financial information**

	Electricity distribution	Gas distribution	Select Solutions	Consolidated
	\$M	\$M	\$M	\$M
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 (i)	(231.7)	(25.5)	(59.9)	(317.1)
Segment result - EBITDA (ii)	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

30 September 2013				
Regulated revenue	410.2	133.4	-	543.6
Customer contributions	9.4	4.7	-	14.1
Service revenue	-	-	56.1	56.1
Other revenue	2.6	0.3	9.1	12.0
Total segment revenue	422.2	138.4	65.2	625.8
Segment expense before depreciation and amortisation	(185.4)	(19.8)	(63.0)	(268.2)
Segment result - EBITDA (ii)	236.8	118.6	2.2	357.6
Depreciation and amortisation	(103.0)	(27.4)	(1.9)	(132.3)
Net finance costs				(104.9)
Income tax expense				(33.3)
Profit for the period				87.1

(i) Electricity distribution segment includes \$37.5 million of Advanced Metering Infrastructure (AMI) customer rebates, and \$15.0 million of AMI asset impairment.

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

(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.

Condensed notes to the consolidated interim financial statements

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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 2014 \$M	30 September 2013 \$M
Finance income		
Interest income	7.1	6.2
Interest income - related parties	58.2	86.5
Total finance income	65.3	92.7
Finance costs		
Interest expense	171.5	192.0
Other finance charges - cash	1.7	1.9
Other finance charges - non-cash	2.5	2.7
(Gain)/loss on accounting for hedge relationships	(4.6)	6.3
Unwind of discount on provisions	1.2	0.2
Defined benefit net interest expense	-	0.3
Capitalised finance charges	(5.0)	(5.8)
Total finance costs	167.3	197.6
Net finance costs	102.0	104.9

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Note 5 Income tax expense**Numerical reconciliation of income tax expense to prima facie tax payable**

	30 September	30 September
	2014	2013
	\$M	\$M
Profit before income tax expense	68.1	120.4
Tax at the Australian tax rate of 30% (2013: 30%)	20.4	36.1
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Recognition of additional tax losses (i)	(24.6)	-
Prior year (over)/under provision	(1.4)	(2.7)
Sundry items	(0.8)	(0.1)
Income tax (benefit)/expense	(6.4)	33.3

- (i) On 22 October 2014, AusNet Services and the Australian Taxation Office (ATO) reached an in-principle, non-binding agreement to settle 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.

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30 September 2014

Note 6 Borrowings

	Maturity date	30 September 2014 \$M	31 March 2014 \$M
Current borrowings			
Commercial paper	Various	293.7	89.5
Bank debt facilities	Oct 2014	99.9	252.7
US dollar (USD) senior notes (i)	Nov 2014	344.3	331.4
Swiss franc (CHF) senior notes (i)	Sep 2015	574.1	-
Total current borrowings		1,312.0	673.6
Non-current borrowings			
US dollar (USD) senior notes (i)	2016	380.7	362.1
Bank debt facilities	2017 - 2019	396.6	296.2
Swiss franc (CHF) senior notes (i)	2017 - 2019	632.8	1,233.6
Domestic medium term notes	2017 - 2024	1,361.9	1,211.1
Pound sterling (GBP) senior notes (i)	2018	522.9	520.6
Euro (EUR) senior notes (i)	2020 - 2024	1,253.0	1,257.8
Hong Kong dollar (HKD) senior notes (i)	2020 - 2028	312.8	289.1
Floating rate notes	2024	99.7	99.7
Japanese yen (JPY) senior notes (i)	2024	54.4	54.4
Norwegian kroner (NOK) senior notes (i)	2029	165.6	-
Total non-current borrowings		5,180.4	5,324.6
Total borrowings (ii)		6,492.4	5,998.2

- (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 2014 is \$6,985.9 million (31 March 2014: \$6,458.0 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 2014.

In June 2014, AusNet Services successfully completed a Norwegian kroner ("NOK") 900 million, fifteen-year bond issue to raise \$160 million, and a \$125 million, ten-year Australian bond issue. These bonds added to AusNet Services' funding diversity both in terms of maturity and sources of debt. The Stapled Group has available a total of \$375 million of undrawn but committed non-current bank debt facilities and \$674.6 million cash on deposit as at 30 September 2014.

AusNet Services has an A- credit rating from Standard and Poor's and A3 from Moody's Investor Services.

Condensed notes to the consolidated interim financial statements30 September 2014

Note 7 Equity**Movements in ordinary share capital**

Date	Details	Number of shares	\$M
1 April 2014	Opening balance	639,486,731	640.0
30 September 2014	Closing balance	639,486,731	640.0

Note 8 Financial risk management

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

The use of financial derivatives is governed by the AusNet Services 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.

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 2014.

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 2014.

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 2014.

Condensed notes to the consolidated interim financial statements

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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 2014. Some of the critical judgements and estimates used by management in applying the Group's accounting policies for the period ended 30 September 2014 have been updated to reflect the latest available information. In particular, amendments to the useful life assumptions of certain AMI assets have been made following the finalisation of the technical review and development of a remediation plan on 24 September 2014. These amendments have not had a material impact on the financial performance or financial position of the Group for the half year ended 30 September 2014.

Note 11 Contingent liabilities

Details of contingent liabilities of the Group for which no provisions are included in the financial statements are as follows:

Bushfire litigation

AusNet Services is, and has been, a defendant in litigation that has been brought in connection with the 7 February 2009 bushfires located at Beechworth, Kilmore East, and Murrindindi, respectively. In all three matters, AusNet Services has denied that it was negligent. AusNet Services alleges that its conduct was at all times reasonable, in compliance with technical regulations and reasonable in light of economic regulations applicable to AusNet Services.

On 16 May 2012, the Supreme Court of Victoria formally approved the settlement deed for the Beechworth bushfire class action. That settlement was reached without admission of liability by AusNet Services or any other party.

On 15 July 2014, AusNet Services announced that the parties to the Kilmore East bushfire class action had agreed to settle the action. The settlement was reached without admission of liability by AusNet Services or any other party. The settlement is subject to court approval, which is scheduled for hearing in November 2014.

The Murrindindi class action trial is scheduled to commence in February 2015. There are many variables associated with litigation and it is impossible to provide a prior assessment of the ultimate resolution of the Murrindindi proceeding. However, AusNet Services is vigorously defending the claim and rejects any assertion of negligence.

AusNet Services is also a defendant in litigation that has been brought in connection with the 9 February 2014 bushfires located at Yarram and Mickleham. AusNet Services also denies that it was negligent in relation to these bushfires and will vigorously defend these claims.

AusNet Services strongly holds the belief that it has consistently complied with its regulatory obligations, including in the year ended 31 March 2009 and in the year ended 31 March 2014. It is therefore reasonable to consider that AusNet Services' insurance and, if required, a claim to the regulator for pass-through of residual costs ultimately incurred in relation to the proceedings, would be sufficient to cover AusNet Services' liability, if any, associated with these bushfires. However, the ultimate resolution of these matters cannot be known with certainty.

AusNet Services has liability insurance which specifically provides cover for bushfire liability. AusNet Services reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice.

AusNet Services' safety record, network asset management and network maintenance programs are consistent with industry practice, and its bushfire mitigation and vegetation management programs comply with Electricity Safety (Bushfire Mitigation) Regulations. AusNet Services' bushfire mitigation and vegetation management programs are audited annually by Energy Safe Victoria. AusNet Services has consistently achieved a 'zero' bushfire mitigation index for the bushfire seasons since listing in 2005, including the 2008-09 and 2013-14 bushfire seasons.

Condensed notes to the consolidated interim financial statements

30 September 2014

Note 12 Events occurring after the balance sheet date

There has been no matter or circumstance that has arisen since 30 September 2014 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 2014 of the Group;
- (b) the results of those operations; or
- (c) the state of affairs, in financial periods subsequent to 30 September 2014, 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 11 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 2014 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
11 November 2014

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 ("the Company"), which comprises the consolidated interim statement of financial position as at 30 September 2014, consolidated interim income statement and 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 2014 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*.

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 2014 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

Michael Bray
Partner

Melbourne

11 November 2014