

ASX & SGX-ST Release



18 November 2016

TO: ASX Limited
Singapore Exchange Securities Trading Limited

AusNet Services Holdings Pty Ltd 2016/17 Half Year Results

Please find attached the Interim Financial Report of AusNet Services Holdings Pty Ltd for the financial period ended 30 September 2016.

Claire Hamilton
Company Secretary

AusNet Services Holdings Pty Ltd
ACN 086 006 859

Interim Financial Report

For the financial period ended 30 September 2016

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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 of the Group for the year ended 31 March 2016 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 17 November 2016.

Directors' report

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 (the Group) for the financial period ended 30 September 2016.

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

Our Directors

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

Nino **Ficca** (*Managing Director*)

Adam **Newman**

Alistair **Parker** (*appointed 10 October 2016*)

Susan **Taylor** (*appointed 1 April 2016, resigned 23 September 2016*)

Interim review of operations

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

	30 September 2016 \$M	30 September 2015 \$M	Movement \$M	%
Revenue	674.3	722.8	(48.5)	(6.7)
EBITDA ¹	375.9	439.3	(63.4)	(14.4)
Net profit after tax	87.9	426.5	(338.6)	(79.4)

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

As foreshadowed in the last quarter of FY2016, the period-on-period decline in our financial performance has arisen from the \$73.3 million reduction in electricity distribution revenues due to tariff decreases across both distribution and metering. This is partially offset by an \$18.2 million increase in gas distribution revenues arising from a change in the seasonal profile of the tariff mix.

Operating expenses increased by \$14.9 million or 5.3 per cent compared to the previous corresponding period. There were a number of unusual items that contributed to this result:

- We recognised \$7.2 million of redundancy and restructuring provisions and program implementation costs in September 2016 associated with business efficiency initiatives (including IT outsourcing and customer service consolidation);
- We also recognised an \$8.9 million (primarily non-cash) write-off of an IT project was recognised in the current period; and
- Offsetting these two impacts, the prior period included \$10.0 million of legal costs relating to the 2014 bushfires at Yarram and Mickleham and \$1.4 million of redundancy provisions.

Excluding these items, operating expenses increased by \$10.2 million. This has been driven by a combination of wage increases as a result of increased average headcount, an increase in guaranteed service level payments and higher expenses associated with new revenue in Select Solutions.

Directors' report**Interim review of operations (continued)**

Net finance costs have increased by \$7.0 million or 7.7 per cent compared to the prior period. This is as a result of lower interest income on intercompany loans, partially offset by lower interest expenses on our borrowings, particularly following the 2016-2020 Electricity Distribution Price Review (EDPR) reset. Also, additional hedge accounting gains of \$5.0 million were recognised during the period.

A more detailed review of our revenues and results by operating segment for the interim financial period ended 30 September 2016 is set out below.

Electricity distribution business

	30 September 2016	30 September 2015	Movement	%
Segment revenue (\$M)	457.3	530.6	(73.3)	(13.8)
Segment result - EBITDA (\$M)	252.9	332.6	(79.7)	(24.0)
Volume (GWh)	4,007	4,067	(60)	(1.5)
Connections	698,648	685,435	13,213	1.9
Capital expenditure (\$M)	220.8	195.9	24.9	12.7

The largest contributor to the 13.8 per cent decline in revenue is the 5.7 per cent decline in electricity distribution tariffs and the 42.9 per cent decline in metering revenue compared to the prior period arising from the 2016-2020 EDPR decision. In addition, a milder winter during the current period has resulted in further revenue reductions. Refer below for details regarding the application of the revenue cap.

The decline in metering revenues is due to the lower business as usual capex and opex allowance in the 2016-2020 EDPR period as compared to the establishment costs in the AMI roll-out period. In addition, there was a downward adjustment due to higher excess expenditures in prior year tariffs as part of the EDPR decision. This has been reflected in CY2016 tariffs.

Operating expenses for electricity distribution have increased \$6.4 million or 3.2 per cent compared to the prior period due to:

- Inclusion of \$5.4 million of redundancy, restructuring and program implementation costs, associated with business efficiency initiatives;
- A \$4.1 million increase in guaranteed service level (GSL) payments during the period due to an increased number of events and an increase in the rate paid under the current EDPR period;
- An \$8.9 million (primarily non-cash) write-off for an IT project recognised during the period, of which \$8.1 million was attributable to the electricity distribution business; offset by
- \$10.0 million of legal costs relating to the 2014 bushfires at Yarram and Mickleham in the prior period.

Capital expenditure has increased due to higher spend on the metering program as we completed the mesh rollout. In addition, we have accelerated some works on our key safety programs, including the Powerline Replacement Program funded by the Victorian Government.

The above results do not include the impact of the storm events that occurred on 9 October 2016 which resulted in the loss of electricity for approximately 86,000 customers due to trees and branches falling across powerlines. This was the worst storm event in eight years. Our field crews and delivery partners worked to restore power as quickly as possible, while ensuring the safety of our people and the community. Nonetheless, It is estimated that this event resulted in an additional \$8 million expense (post tax), predominately due to additional GSL payments to electricity distribution customers. GSL payments are recovered through the regulatory price regime, however with a time lag such that these particular GSL payments will not be recovered until the next EDPR period.

Directors' report**Interim review of operations (continued)***Future revenue impacts*

We recognise revenue for distribution services as those services are provided, based on the prevailing tariffs at the time. 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 billed and recognised under our accounting policy, and the revenue cap under the EDPR decision. This difference is trued-up (or down) as an adjustment to tariffs in future periods. For the nine months to 30 September 2016, we have recognised \$7.3 million less revenue than permitted under the cap. This revenue will be largely recognised in CY2017.
- The Australian Energy Regulator's (AER) Draft Decision on our 2016 Advanced Metering Infrastructure (AMI) Transition Charges Application would result in a negative revenue adjustment of \$62.1 million (\$2018). In our submission on the Draft Decision, we highlighted that we are only applying for the approval of efficient and prudent costs. We have also sought to smooth any final adjustment from 2018 to 2020. A final decision is expected in December 2016 (after CY2017 tariffs have been set). Further details regarding the excess expenditure incurred are included in the "Material risks and uncertainties" section of this report.
- Based on CY2015 performance, we will recognise an additional \$19.5 million of revenue in CY2017 under the Service Target Performance Incentive Scheme (STPIS), over and above our CY2016 adjusted revenue cap.

Gas distribution business

	30 September 2016	30 September 2015	Movement	%
Segment revenue (\$M)	149.1	130.9	18.2	13.9
Segment result - EBITDA (\$M)	118.1	104.8	13.3	12.7
Volume (PJ)	41.5	46.0	(4.5)	(9.8)
Connections	668,899	654,587	14,312	2.2
Capital expenditure (\$M)	39.1	46.8	(7.7)	(16.5)

The significant increase in gas distribution revenues is due to a re-profiling of tariffs for CY2016 which saw a shift in revenues from the summer off-peak period into the winter peak period. Partially offsetting this has been the warmer weather in FY2017 which has seen a reduction in volumes.

Operating expenses increased by \$4.9 million or 18.8 per cent. Included within this increase is \$1.8 million of provision and program implementation costs associated with the business efficiency initiatives, as well as \$0.8 million attributed to the IT project write-off.

The reduction in capital expenditure has arisen from longer than expected lead times in sourcing materials for works under the Victorian Government's Regional Gas Infrastructure Program. In addition, there has been lower spend on our mains renewal program (replacement of old cast iron and steel pipelines) during the current period primarily due to delays in obtaining council approvals.

Directors' report**Interim review of operations (continued)****Select Solutions business**

	30 September 2016	30 September 2015	Movement	%
Segment revenue (\$M)	67.9	61.3	6.6	10.8
Segment result - EBITDA (\$M)	4.9	1.9	3.0	157.9

The Select Solutions business experienced a significant increase in revenue, largely on the back of organic growth in water and gas services with the signing of a number of key new contracts, as well as a significant increase in contestable metering revenues.

The segment result was negatively impacted in the prior period from higher mobilisation costs on new contracts and a number of cost overruns for particular projects which were completed last year. In addition, contestable metering services attract higher margins and so the growth in revenue has also positively impacted EBITDA margins for the business.

Financial position

Total equity was \$2,222.7 million as at 30 September 2016, a decrease of \$1.4 million compared to 31 March 2016. The net profit recognised for the six month period has been offset by an adverse movement in the hedge reserve due to declining interest rates.

Our current liabilities exceeded current assets by \$766.0 million at 30 September 2016. This includes \$453.0 million of current borrowings maturing in FY2017, as well as a further \$361.8 million maturing in the first half of FY2018. 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 2016 we have available a total of \$450.0 million of undrawn but committed non-current bank debt facilities, \$136.0 million of undrawn but committed current bank debt facilities and \$32.1 million of cash.

Capital management**Debt raising**

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 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.

Dividends

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

Directors' report**Material risks and uncertainties**

We are committed to understanding and effectively managing risk to provide greater certainty and confidence for our shareholders, employees, customers, suppliers and 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 2016 annual report, we detailed the following principal risks which may materially impact the execution and achievement of our business strategy and financial prospects:

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

While these remain relevant risks and uncertainties, we provide the following updates since the 31 March 2016 annual report:

Metering program risks update

On 20 September 2016 the AER published its Draft Decision on our 2016 Advanced Metering Infrastructure (AMI) Transition Charges Application which sought partial recovery of additional metering program expenditure over and above the original AER approved budget.

The Draft Decision, which relates to excess expenditure incurred in calendar years 2014 and 2015, permits the recovery of the following costs:

CY2014 and CY2015 \$M (nominal)	Total Expenditure Excess Incurred	AER Draft Decision	Difference from total incurred
Total capital expenditure	113.1	25.2	87.9
Total operating expenditure	52.8	21.0	31.8
Total expenditure	165.9	46.2	119.7

This Draft Decision would result in a negative revenue adjustment of \$62.1 million (\$2018). A Final Decision from the AER is expected in December 2016.

In addition to the above, we have incurred capital expenditure of \$98.5 million on our metering program for the nine months to 30 September 2016. This expenditure is subject to the 2016-2020 EDPR Determination, which provided an allowance of \$10.8 million (\$2015) for CY2016.

We have made an administrative undertaking to the Essential Services Commission (ESC) setting out timeframes under which we will meet the AMI compliance targets. Our progress was subject to an independent audit in August 2016 and the ESC are currently reviewing these audit findings. A further audit will be undertaken in February 2017.

Our metering program continues to track to plan. We have completed the field rollout of the mesh network and approximately 94 per cent of mesh communication devices have been logically converted to remotely provide data to market (as at 31 October 2016). We expect to complete the program on or before March 2017, in accordance with our ESC undertaking.

Material risks and uncertainties (continued)

Regulatory risks update

Limited merits review

In August 2016, the Council of Australian Governments (COAG) Energy Council announced that it was undertaking a review of the limited merits review framework in the National Electricity Law and the National Gas Law. The limited merits review allows parties affected by prescribed decisions to have those decisions reviewed by the Australian Competition Tribunal (ACT) where it can be established that there is a serious issue and grounds for review.

The review is to assess the effectiveness of the limited merits review regime. In addition to considering the role of the ACT under the amended legislative regime, the review is to explore all feasible options, including the removal of the limited merits review, to achieve the objectives of administrative review generally and in the energy sector specifically.

It is not yet known, if any, what the outcome of this review will be or its impact on our operations and performance.

Power of Choice update

In October 2016 the Victorian Government published its "Transition to Metering Competition in Victoria" Options Paper. This paper outlines proposed responses for Victoria to transition to the new national arrangements for metering competition (Power of Choice). The four options proposed in the paper are:

- Full adoption of the new framework for all customers with the national minimum services specification;
- Adoption for all customers, but with the Victorian meter specification as opposed to the national specification;
- Adoption for new connections only with the Victorian meter specification; or
- Defer adoption of metering competition for now.

Submissions to the paper were due on 11 November 2016. It is not yet known when the Government will finalise its position regarding metering competition in Victoria.

Ring-fencing Guidelines

In August 2016 the AER released its initial Ring-fencing Guideline for electricity distribution businesses, with a near-final draft provided in November 2016. The objective of this Guideline is to provide for the accounting and functional separation of regulated direct control services provided by electricity distribution businesses from other services they may provide. It includes obligations which are targeted at cross-subsidisation and providing inappropriate competitive advantage to a company's own non-regulated services, including the inappropriate provision of network and customer data.

The AER is expected to finalise its Guideline in November 2016, with applicability from 1 December 2016. Transitional arrangements will apply. While there will be a number of changes to our business that will be required in order to comply with the Guideline, it is not expected to have a material impact on our underlying operations or financial performance. This view is dependent upon the final version and explanatory statements. We are currently working through the implementation of the Guideline to ensure compliance within the relevant timeframes.

Environmental regulation and climate change

AusNet Services was subject to both Federal and State Government environmental legislation during the period. The most significant areas of environmental legislation affecting us 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* (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 2015 to 30 June 2016.

Directors' report

Significant changes in the state of affairs

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

October 2016 storms

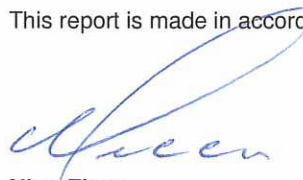
The storm events that occurred on 9 October 2016 resulted in the loss of electricity for approximately 86,000 customers due to trees and branches falling across powerlines. It is estimated that this event resulted in an additional \$8 million expense (post tax), predominately due to additional GSL payments to electricity distribution customers.

With the exception of the matter outlined above, the Directors are not aware of any circumstances that have arisen since 30 September 2016 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 2016.

Rounding of amounts

The Group 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
17 November 2016



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 2016 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

A handwritten signature in black ink, appearing to read 'Paul McDonald', written in a cursive style.

Paul McDonald

Partner

Melbourne

17 November 2016

Consolidated interim income statement

For the period ended 30 September 2016

		30 September 2016	30 September 2015
	Notes	\$M	\$M
Revenue	B.1	674.3	722.8
Use of system and associated charges		(57.8)	(57.6)
Easement and land tax		(0.5)	(0.5)
Employee benefit expenses		(99.5)	(82.8)
External maintenance and contractors services		(43.8)	(44.6)
Materials		(19.3)	(19.0)
Information technology and communication costs		(20.2)	(18.8)
Operating lease rental expenses		(5.6)	(6.0)
Administrative expenses		(13.0)	(25.6)
Disposal of property plant and equipment		(0.1)	(1.4)
Other costs		(38.6)	(27.2)
Total expenses excluding depreciation, amortisation, interest and tax		(298.4)	(283.5)
Earnings before interest, tax, depreciation and amortisation		375.9	439.3
Depreciation and amortisation		(152.2)	(144.3)
Profit from operating activities		223.7	295.0
Finance income	D.3	54.3	84.0
Finance costs	D.3	(152.7)	(175.4)
Net finance costs		(98.4)	(91.4)
Profit before income tax		125.3	203.6
Income tax (expense)/benefit	B.3	(37.4)	222.9
Profit for the period		87.9	426.5

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 2016

	30 September 2016 \$M	30 September 2015 \$M
Profit for the period	87.9	426.5
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	(0.6)	33.3
Income tax on movement in defined benefit fund	0.2	(10.0)
	(0.4)	23.3
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	(131.7)	(27.9)
Income tax on movement in hedge reserve	42.5	(15.9)
	(89.2)	(43.8)
Other comprehensive income for the period, net of income tax	(89.6)	(20.5)
Total comprehensive income for the period	(1.7)	406.0

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 2016

	Notes	30 September 2016 \$M	31 March 2016 \$M
ASSETS			
Current assets			
Cash and cash equivalents		32.1	440.2
Receivables		263.9	363.4
Inventories		43.4	49.7
Derivative financial instruments		81.7	81.6
Other assets		18.8	22.6
Total current assets		439.9	957.5
Non-current assets			
Receivables		2,681.0	2,396.2
Property, plant and equipment	C.1	5,794.3	5,692.0
Intangible assets	C.2	496.7	497.4
Derivative financial instruments		501.3	476.3
Other assets		0.4	2.5
Total non-current assets		9,473.7	9,064.4
Total assets		9,913.6	10,021.9
LIABILITIES			
Current liabilities			
Payables and other liabilities		306.5	389.6
Provisions		64.4	69.6
Borrowings	D.1	814.8	762.0
Derivative financial instruments		20.2	18.6
Total current liabilities		1,205.9	1,239.8
Non-current liabilities			
Payables and other liabilities		52.5	141.9
Provisions		49.3	43.1
Borrowings	D.1	5,921.2	6,054.2
Derivative financial instruments		328.9	174.3
Deferred tax liabilities		133.1	144.5
Total non-current liabilities		6,485.0	6,558.0
Total liabilities		7,690.9	7,797.8
Net assets		2,222.7	2,224.1
EQUITY			
Contributed equity	D.4	1,063.9	1,063.9
Reserves		(169.4)	(80.5)
Retained profits		1,328.2	1,240.7
Total equity		2,222.7	2,224.1

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 2016

	Contributed equity \$M	Hedge reserve (i) \$M	Share based payment reserve (ii) \$M	Retained profits \$M	Total equity \$M
30 September 2016					
Balance as at 1 April 2016	1,063.9	(80.8)	0.3	1,240.7	2,224.1
Total comprehensive income for the period					
Profit for the period	-	-	-	87.9	87.9
Other comprehensive income	-	(89.2)	-	(0.4)	(89.6)
Total comprehensive income for the period	-	(89.2)	-	87.5	(1.7)
Transactions with owners, recorded directly in equity					
Share based payments	-	-	0.3	-	0.3
Total transactions with owners	-	-	0.3	-	0.3
Balance as at 30 September 2016	1,063.9	(170.0)	0.6	1,328.2	2,222.7
30 September 2015					
Balance as at 1 April 2015	640.0	(71.2)	-	775.0	1,343.8
Total comprehensive income for the period					
Profit for the period	-	-	-	426.5	426.5
Other comprehensive income	-	(43.8)	-	23.3	(20.5)
Total comprehensive income for the period	-	(43.8)	-	449.8	406.0
Transactions with owners, recorded directly in equity					
New shares issued	423.9	-	-	-	423.9
Share based payments	-	-	0.3	-	0.3
Total transactions with owners	423.9	-	0.3	-	424.2
Balance as at 30 September 2015	1,063.9	(115.0)	0.3	1,224.8	2,174.0

- (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.
- (ii) The share based payment reserve represents the tax effected fair value of the performance rights granted under the 2015 and 2016 tranches of the long-term incentive scheme. This takes into account estimated vesting and service conditions as at 30 September 2016.

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 2016

	30 September 2016 \$M	30 September 2015 \$M
Cash flows from operating activities		
Profit for the period	87.9	426.5
Income tax expense/(benefit)	37.4	(222.9)
Net finance costs (i)	98.4	91.4
Depreciation and amortisation	152.2	144.3
Other non-cash items	5.4	-
Movement in working capital	(111.0)	(109.6)
	270.3	329.7
Net interest paid	(154.7)	(168.1)
Net cash inflow from operating activities	115.6	161.6
Cash flows from investing activities		
Payments for property, plant and equipment (i)	(307.5)	(226.2)
Proceeds from sale of property, plant and equipment	3.5	-
Net cash outflow from investing activities	(304.0)	(226.2)
Cash flows from financing activities		
Proceeds from borrowings	414.5	146.0
Repayments of borrowings	(486.5)	(847.1)
Proceeds from loans with related parties	388.4	478.6
Repayments of loans with related parties	(536.1)	(430.6)
Net cash outflow from financing activities	(219.7)	(653.1)
Net decrease in cash held	(408.1)	(717.7)
Cash and cash equivalents at beginning of period	440.2	739.8
Cash and cash equivalents at end of the period	32.1	22.1

- (i) Net finance costs include a credit of \$5.0 million (2015: \$5.3 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 2016

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Condensed notes to the consolidated interim financial statements

30 September 2016

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 2016, represents the consolidated financial statements of AusNet Services Holdings Pty Ltd (the Company) and its subsidiaries. The consolidated group is collectively referred to as the Group. The ultimate Australian parent of the Company is AusNet Services Ltd, which is part of a consolidated group trading as AusNet Services.

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 Company's current liabilities exceed current assets by \$766.0 million at 30 September 2016. 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 2016 the Group had available a total of \$450.0 million of undrawn but committed non-current bank debt facilities, \$136.0 million of undrawn but committed current bank debt facilities and \$32.1 million of cash; 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 for the year ended 31 March 2016 and any public announcements made by the Group 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 17 November 2016.

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 2016. There have been no new accounting standards relevant to the Group adopted during the period.

(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 2016. Some of the critical judgements and estimates used by management in applying the Group's accounting policies for the period ended 30 September 2016 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 2016.

In relation to our key estimates and judgements regarding impairment of non-current assets, we have determined that our metering assets form part of the electricity distribution cash generating unit (CGU). As a result, the metering assets are tested for impairment together with the electricity distribution regulated network assets and cash flows. In October 2016 the Victorian Government published its "Transition to Metering Competition in Victoria" Options Paper. This paper outlines proposed responses for Victoria to transition to the new national arrangements for metering competition (Power of Choice). It is not yet known when the Government will finalise its position regarding metering competition in Victoria. We continue to monitor developments in this area to determine if a reassessment of our CGUs will be required in the future.

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Section B Operating our business

This section highlights the performance of the Group for the period, including results by operating segment and details of income tax expense.

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 Select Solutions 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 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) Select Solutions

Select Solutions provides specialist metering, asset intelligence and telecommunication solutions. Select Solutions' customers are primarily businesses operating in the utility and essential infrastructure sectors such as electricity, water, gas, telecommunications and rail companies.

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Note B.1 Segment information (continued)**(b) Reportable segment financial information**

	Electricity distribution	Gas distribution	Select Solutions (ii)	Consolidated
	\$M	\$M	\$M	\$M
30 September 2016				
Regulated revenue	437.6	147.5	-	585.1
Customer contributions	11.2	1.4	-	12.6
Service revenue	-	-	59.0	59.0
Other revenue	8.5	0.2	8.9	17.6
Total segment revenue	457.3	149.1	67.9	674.3
Segment expense before depreciation and amortisation	(204.4)	(31.0)	(63.0)	(298.4)
Segment result - EBITDA (i)	252.9	118.1	4.9	375.9
Depreciation and amortisation	(123.1)	(26.6)	(2.5)	(152.2)
Net finance costs				(98.4)
Income tax expense				(37.4)
Profit for the period				87.9
30 September 2015				
Regulated revenue	522.6	128.6	-	651.2
Customer contributions	6.4	1.1	-	7.5
Service revenue	-	-	60.3	60.3
Other revenue	1.6	1.2	1.0	3.8
Total segment revenue	530.6	130.9	61.3	722.8
Segment expense before depreciation and amortisation	(198.0)	(26.1)	(59.4)	(283.5)
Segment result - EBITDA (i)	332.6	104.8	1.9	439.3
Depreciation and amortisation	(112.4)	(28.4)	(3.5)	(144.3)
Net finance costs				(91.4)
Income tax benefit				222.9
Profit for the period				426.5

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

(ii) The segment financial information for Select Solutions only includes revenues and expenses associated with external parties. All expenses incurred by Select Solutions for AusNet Services' other segments are allocated to those segments.

(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.

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Note B.2 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. From the beginning of the new EDPR period on 1 January 2016, 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) Select Solutions

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

Note B.3 Taxation**(a) Effective tax rate reconciliation**

	30 September 2016 \$M	30 September 2015 \$M
Profit before income tax expense	125.3	203.6
Tax at the Australian tax rate of 30.0% (2015: 30.0%)	37.6	61.1
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Impact of entry into new tax consolidated group (i)	-	(284.5)
Prior year (over)/under provision	(0.1)	0.8
Sundry items	(0.1)	(0.3)
Income tax expense/(benefit)	37.4	(222.9)

(i) In the prior period, AusNet Services Ltd formed a single tax consolidated group that replaced the previous two tax consolidated groups of AusNet Services (Distribution) Ltd and AusNet Services (Transmission) Ltd. As a result of this change:

- the tax bases of the assets of the AusNet Services (Distribution) Ltd tax consolidated group were reset with a valuation uplift of \$976.3 million recognised. As a result, deferred tax liabilities were reduced by \$292.9 million (being the tax effect of the valuation uplift); and
- the change to a new tax consolidated group required the reversal of historical deferred tax on derivative financial instruments (\$8.4 million).

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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 2016								
Cost	24.3	67.4	1.1	5,639.5	1,996.6	505.8	249.5	8,484.2
Accumulated Depreciation	-	(7.3)	-	(1,812.5)	(534.2)	(335.9)	-	(2,689.9)
Carrying amount as at 30 September 2016	24.3	60.1	1.1	3,827.0	1,462.4	169.9	249.5	5,794.3
31 March 2016								
Cost	24.3	66.6	1.1	5,508.0	1,978.0	452.0	251.2	8,281.2
Accumulated Depreciation	-	(6.8)	-	(1,762.7)	(515.5)	(304.2)	-	(2,589.2)
Carrying amount as at 31 March 2016	24.3	59.8	1.1	3,745.3	1,462.5	147.8	251.2	5,692.0

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Note C.2 Intangible assets

	Distribution licences \$M	Goodwill \$M	Software \$M	Other intangible assets \$M	Total \$M
30 September 2016					
Cost	354.5	12.1	396.9	4.0	767.5
Accumulated amortisation	-	-	(267.7)	(3.1)	(270.8)
Carrying amount as at 30 September 2016	354.5	12.1	129.2	0.9	496.7
31 March 2016					
Cost	354.5	12.1	377.7	4.0	748.3
Accumulated amortisation	-	-	(247.9)	(3.0)	(250.9)
Carrying amount as at 31 March 2016	354.5	12.1	129.8	1.0	497.4

Note C.3 Capital expenditure

	30 September 2016 \$M	30 September 2015 \$M
Electricity distribution	220.8	195.9
Gas distribution	39.1	46.8
Select Solutions	4.9	2.3
Total capital expenditure	264.8	245.0

Condensed notes to the consolidated interim financial statements

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Section D Financing our business

This section provides information relating to our capital structure and our exposure to financial risk, how they affect the Group's financial position and performance, and how those risks are managed.

Note D.1 Borrowings

		30 September 2016	31 March 2016
	Maturity date	\$M	\$M
Current borrowings			
Domestic medium term notes	Sep 2017	312.0	-
Swiss franc (CHF) senior notes (i)	Feb 2017	336.1	340.9
US dollar (USD) senior notes (i)	Dec 2016	52.9	421.1
Bank debt facilities	Oct 2016 - Sep 2017	113.8	-
Total current borrowings		814.8	762.0
Non-current borrowings			
Bank debt facilities	2017-2019	173.7	-
Swiss franc (CHF) senior notes (i)	2019	380.1	385.6
Domestic medium term notes	2020-2024	1,119.0	1,418.7
Pound sterling (GBP) senior notes (i)	2018	460.5	514.1
Floating rate notes	2020	99.8	99.7
Euro (EUR) senior notes (i)	2020-2027	2,225.3	2,202.2
Hong Kong dollar (HKD) senior notes (i)	2020-2028	534.1	527.2
Japanese yen (JPY) senior notes (i)	2024	69.1	62.0
Norwegian kroner (NOK) senior notes (i)	2029	176.1	162.9
US dollar (USD) hybrid securities (ii)	2076	489.4	488.3
Singapore dollar (SGD) hybrid securities (ii)	2076	194.1	193.5
Total non-current borrowings		5,921.2	6,054.2
Total borrowings (iii)		6,736.0	6,816.2

- (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 first call date for hybrid securities is September 2021.
- (iii) The fair value of total borrowings as at 30 September 2016 is \$7,294.6 million (31 March 2016: \$7,463.1 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 2016.

The Group has \$586.0 million of undrawn but committed bank debt facilities and \$32.1 million cash on deposit as at 30 September 2016. AusNet Services has an A- credit rating from Standard and Poor's and an A3 credit rating from Moody's Investor Services.

Condensed notes to the consolidated interim financial statements

30 September 2016

Note D.2 Financial risk management

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

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

The objective of hedging activities carried out by the Group is to minimise the exposure to changes in interest rates and foreign exchange rates. The interest rate risk associated with the regulatory revenue reset is managed such that its interest rate hedges are re-priced in line with the agreed averaging period.

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

The Group's financial risk management objectives and policies are consistent with those disclosed in the Group's consolidated financial report as at and for the year ended 31 March 2016.

(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 valuation techniques applied by the Group are consistent with those applied and disclosed by the Group in its consolidated financial report as at and for the year ended 31 March 2016.

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 2016.

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Note D.3 Net finance costs

	30 September 2016 \$M	30 September 2015 \$M
Finance income		
Interest income	4.3	7.2
Interest income - related parties	50.0	76.8
Total finance income	54.3	84.0
Finance costs		
Interest expense	163.8	183.5
Other finance charges - cash	1.6	1.5
Other finance charges - non-cash	2.6	2.4
(Gain)/loss on accounting for hedge relationships	(12.8)	(7.8)
Unwind of discount on provisions	2.5	1.1
Capitalised finance charges	(5.0)	(5.3)
Total finance costs	152.7	175.4
Net finance costs	98.4	91.4

Note D.4 Equity**Movements in ordinary share capital**

Date	Details	Number of shares	\$M
1 April 2016	Opening balance	1,063,361,942	1,063.9
30 September 2016	Closing balance	1,063,361,942	1,063.9

Condensed notes to the consolidated interim financial statements

30 September 2016

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

We are not aware of any contingent liabilities or assets as at 30 September 2016.

Note E.2 Events occurring after the balance sheet date

(a) October storms

The storm events that occurred on 9 October 2016 resulted in the loss of electricity for approximately 86,000 customers due to trees and branches falling across powerlines. It is estimated that this event resulted in an additional \$8 million expense (post tax), predominately due to additional GSL payments to electricity distribution customers.

(b) Other matters

Other than outlined above there has been no matter or circumstance that has arisen since 30 September 2016 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 2016 of the Group;
- (b) the results of those operations; or
- (c) the state of affairs, in financial periods subsequent to 30 September 2016, 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 26 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 2016 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
17 November 2016



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 statement of financial position as at 30 September 2016, consolidated interim income statement, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the interim period ended on that date, notes A to E.2 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 interim period'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 2016 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 2016 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'Paul McDonald'.

Paul McDonald
Partner

Melbourne

17 November 2016