

ASX & SGX-ST Release



12 November 2014

TO: ASX Limited
Singapore Exchange Securities Trading Limited

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Results for Announcement to the Market AusNet Services Half Year 2015 Results

Enclosed is an announcement made by AusNet Services which is provided for the information of AusNet Services Holdings Pty Ltd noteholders.

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AusNet Services
AusNet Services (Distribution) Ltd
ABN 37 108 788 245
AusNet Services (Transmission) Ltd
ABN 48 116 124 362
AusNet Services Finance Trust
ARSN 116 783 914

AusNet Services (RE) Ltd
ABN 46 109 977 371
AFS Licence No. 294117 as responsible
entity for AusNet Services Finance Trust

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Results for Announcement to the Market AusNet Services Half Year 2015 Results

The following documents are attached:

1. Appendix 4D – Half Year Report for Period Ended 30 September 2014; and
2. Interim Financial Report of AusNet Services (Distribution) Ltd for the financial period ended 30 September 2014.

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AusNet Services (Distribution) Ltd (formerly SP Australia Networks (Distribution) Ltd)
trading as AusNet Services (formerly SP AusNet)
ACN: 108 788 245

Appendix 4D

Half year report Half Year Ending 30 September 2014

1. The current reporting period is the half year ended 30 September 2014. The previous corresponding period is the half year ended 30 September 2013.
2. Results for announcement to the market

	30 September 2014 \$M	30 September 2013 \$M	% change	Up / down
2.1 Revenue from ordinary activities	971.3	961.2	1.1	Up
2.2 (Loss)/profit from ordinary activities after tax attributable to stapled securityholders comprises: Profit from continuing operations	(4.9)	97.7	105.0	Down
2.3 Net (loss)/profit for the half year attributable to stapled securityholders	(4.9)	97.7	105.0	Down

The 30 September 2014 loss from ordinary activities after tax includes a settlement with the Australian Taxation Office (ATO) in relation to the stapled structure audit of \$163.0 million and AMI rebates and write-offs of \$36.8 million. The 30 September 2013 profit from ordinary activities after tax includes a net charge of \$86.7 million for the full amount of tax and interest potentially payable under the Section 163AA impost dispute with the ATO.

2.4 Distributions for the half year ended 30 September 2014:

	Cents per security
Interim 2015 distribution:	
Fully franked dividend	2.200
Interest income	<u>1.980</u>
Total interim distribution	<u>4.180</u>
Previous corresponding period interim 2014 distribution:	
Fully franked dividend	1.393
Interest income	2.396
Return of capital	<u>0.391</u>
Total interim distribution	<u>4.180</u>

2.5 The record dates for determining entitlements to the distributions:

Record date	Payment date
25 November 2014	24 December 2014

2.6 Brief explanation of revenues, profits after income tax and distributions:

Refer to the Directors' report within the attached Interim Financial Report.

3. Net tangible assets per security

	30 September 2014	30 September 2013
Net tangible assets per stapled security	\$0.86	\$0.92

4. Gain or loss of control over entities

AusNet Services did not gain or lose control over any entities during the period.

5. Dividends and Distributions

Distributions paid during the interim period are:

	Cents per security	Total distribution \$M	Date paid
Fully franked dividend	1.393	47.2	27 June 2014
Interest income	2.379	80.6	27 June 2014
Return of capital	0.408	13.8	27 June 2014
	4.180	141.6	

In relation to the final distribution paid on 27 June 2014 of \$141.6 million, \$51.4 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

6. Distribution Reinvestment Plans

AusNet Services operates a Distribution Reinvestment Plan (DRP) that is available for participation by securityholders on both the ASX and SGX-ST.

Securityholders participating in the DRP for the 2014/15 interim distribution will be issued AusNet Services stapled securities at a 2% discount to the issue price of AusNet Services stapled securities established under the rules of the DRP. The issue price is calculated as the average of the volume weighted average price (as defined in the DRP rules) (VWAP) of AusNet Services stapled securities sold in ordinary market transactions on the ASX during the 10 trading days immediately after the record date for the distribution. The record date for the 2014/15 interim distribution is 25 November 2014.

The deadline for the receipt of Election Notices for participation in the DRP for the 2014/15 interim distribution is 5.00pm (Australian Eastern Daylight Time) on 26 November 2014.

7. Details of associates/joint ventures

AusNet Services had no associates or joint ventures in operation as at or for the half year ended 30 September 2014.

8. Foreign Entities

Not Applicable

9. Status of review of accounts

The half year report is based on accounts which have been subject to an independent review. The AusNet Services accounts are not subject to dispute or qualification.

Date: 11 November 2014

AusNet Services (Distribution) Ltd (formerly SP Australia Networks (Distribution) Ltd)
ACN 108 788 245

Interim Financial Report

For the financial period ended 30 September 2014

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This interim financial report covers the combined entity consisting of AusNet Services (Distribution) Ltd and its subsidiaries, AusNet Services (Transmission) Ltd and its subsidiaries, and AusNet Services Finance Trust. The interim financial report is presented in Australian dollars.

AusNet Services (Distribution) 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 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 (Distribution) Ltd (AusNet Services Distribution) present their report on the general purpose interim financial report of the combined entity for the financial period ended 30 September 2014.

This general purpose interim financial report has been prepared as a consolidation of the financial statements of AusNet Services Distribution and its subsidiaries, AusNet Services (Transmission) Ltd (AusNet Services Transmission) and its subsidiaries and AusNet Services Finance Trust as if all entities operate together. They are therefore treated as a combined entity (the Stapled Group or AusNet Services).

AusNet Services Distribution, AusNet Services Transmission, AusNet Services Finance Trust, and AusNet Services were formerly known as SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd, SP Australia Networks (Finance) Trust, and SP AusNet respectively up until 4 August 2014.

Pursuant to the Stapling Deed effective 21 October 2005, the Stapled Group was established for the purpose of facilitating a joint quotation of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust on the Australian Securities Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST). The Stapled Group was listed on 14 December 2005.

So long as the three entities remain jointly quoted, the number of shares in each of AusNet Services Distribution and AusNet Services Transmission and the number of units in AusNet Services Finance Trust shall be equal and shareholders and unitholders shall be identical.

Directors

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

Non-executive Directors

Ng Kee Choe (Chairman)

Ralph **Craven**

Jeremy Guy Ashcroft **Davis** AM (resigned effective 17 July 2014)

Sally Marie **Farrier**

Eric **Gwee** Teck Hai (resigned effective 17 July 2014)

Ho Tian Yee

Antonino (Tony) Mario **Iannello**

Tina Renna **McMeckan**

Ian Andrew **Renard** AM

Sun Jianxing

Executive Director

Nino **Ficca** (Managing Director)

Restructure and simplification proposal

AusNet Services is considering a restructure and simplification proposal (Proposal) under which the existing stapled entities would become wholly owned by a new listed entity (expected to be called AusNet Services Ltd). The Proposal is subject to due diligence, applicable regulatory approvals and final Board approval. It would be implemented by way of company and trust schemes of arrangement and require the approval of securityholders and the Court. An explanatory memorandum and securityholder meeting date will be notified in due course. AusNet Services is targeting an implementation within the 2015 financial year.

Directors' report

Restructure and simplification proposal (continued)

If the Proposal is approved and implemented:

- eligible securityholders will simply hold shares in AusNet Services Ltd (instead of their current triple-stapled security) in the same proportion as the stapled securities they currently hold*;
- there will be no capital raising or return of capital as part of the Proposal and securityholders will not be required to pay any cash consideration;
- there will be no impact on FY15 distribution guidance of 8.36 cents per security;
- there will be no change to the composition of the AusNet Services Board, management or the operations of AusNet Services as a result of any restructure; and
- future periodic distributions are expected to be paid entirely as dividends and AusNet Services expects that there will be a higher franked component of future distributions but those distributions will not include any AusNet Services Finance Trust distribution components as they have historically.

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.

	30 September 2014 \$M	30 September 2013 \$M	Movement \$M	%
Revenue	971.3	961.2	10.1	1.1
EBITDA	529.4	581.8	(52.4)	(9.0)
Net (loss)/profit after tax	(4.9)	97.7	(102.6)	(105.0)
Adjusted EBITDA ^{1, 3}	566.9	593.8	(26.9)	(4.5)
Adjusted net profit after tax ^{2, 3}	184.4	192.8	(8.4)	(4.4)

Notes:

- 1 Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) excludes \$12.0 million in performance fees recognised for the period ended 30 September 2013, and excludes the recognition of a provision for Advanced Metering Infrastructure (AMI) customer rebates of \$37.5 million for the period ended 30 September 2014.
- 2 As well as the after-tax impact of the items listed for adjusted EBITDA above, adjusted net profit after tax also excludes \$86.7 million for the amount potentially payable as at 30 September 2013 in respect of Section 163AA disputes, and excludes recognition of \$163.0 million in income tax expense for the settlement with the Australian Taxation Office (ATO) in relation to the intra-group financing audit for the period ended 30 September 2014.
- 3 Adjusted EBITDA and adjusted net profit after tax are non-IFRS measures and have not been subject to audit or review.

AusNet Services achieved EBITDA for the period ended 30 September 2014 of \$529.4 million, a decrease of \$52.4 million or 9.0 per cent over the previous corresponding period. This was largely due to the recognition of a provision for AMI customer rebates of \$37.5 million and impairment of AMI assets of \$15.0 million (refer to 'AMI program risks' section within 'Material risks and uncertainties' below for further details).

Adjusted EBITDA for the period was \$566.9 million which includes the \$15.0 million AMI asset impairment. Higher revenues in electricity distribution were offset by lower revenues in gas distribution and electricity transmission as a result of reductions in the Weighted Average Cost of Capital (WACC) arising from their respective regulatory resets which has impacted EBITDA margins. However, lower borrowing costs have also contributed to a \$29.4 million or 16.7 per cent reduction in net finance costs.

* Certain foreign securityholders who AusNet Services determines it would be illegal or unduly onerous to allow to receive shares in AusNet Services Ltd under the Proposal will not receive those shares, and will instead have their investment in AusNet Services sold on market by a nominee and the proceeds of that sale remitted to them in cash. AusNet Services expects that only a small proportion of its securityholders will be ineligible.

Directors' report

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

AusNet Services incurred a net loss after tax of \$4.9 million for the period, a decrease of \$102.6 million compared to the previous period. This decrease is largely due to the recognition during the period of \$163.0 million in income tax expense for the settlement with the ATO in relation to the intra-group financing audit, and the \$36.8 million (after tax) of AMI costs described above. This is offset by the impact of the \$86.7 million of tax charges recognised in relation to the Section 163AA impost in the previous period, and the \$20.5 million (after tax) decrease in finance costs relative to the previous period. Refer to the 'Taxation risks' section within 'Material risks and uncertainties' below for further details regarding the settlement with the ATO.

AusNet Services derives most of its earnings from three regulated energy network businesses, which include Victoria's high voltage electricity transmission network, an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria. A summary of the Stapled 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)	213.8	235.0	(21.2)	(9.0)
Volume (GWh)	3,860	3,902 ¹	(42)	(1.1)
Connections	673,254	663,163	10,091	1.5
Capital expenditure (\$M)	250.2	278.9	(28.7)	(10.3)

Notes:

1 Restated to exclude solar exports.

AusNet Services' electricity distribution business contributed \$447.7 million in total revenues for the period ended 30 September 2014. Total revenue for electricity distribution has 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 \$213.8 million to EBITDA for the period ended 30 September 2014, which is a \$21.2 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 a \$15.0 million impairment of AMI assets, offset by increased revenue and a \$7.3 million reduction in expenses associated with the performance fees under the Management Services 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 the 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 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.

Electricity transmission business

	30 September 2014	30 September 2013	Movement	%
Segment revenue (\$M)	330.7	332.9	(2.2)	(0.7)
Segment result - EBITDA (\$M)	213.9	220.5	(6.6)	(3.0)
Capital expenditure (\$M)	104.3	128.8	(24.5)	(19.0)

AusNet Services' electricity transmission business contributed \$330.7 million in total revenues for the period. Transmission regulated revenue is not subject to volume risk. The 0.7 per cent decrease in revenue is as a result of the reduction in regulatory WACC arising from the Transmission Revenue Reset (TRR) Final Determination for the 2014-17 period, which commenced on 1 April 2014.

The electricity transmission business contributed \$213.9 million to EBITDA for the period ended 30 September 2014, a decrease of \$6.6 million over the previous period. In addition to lower revenues, operating expenses for transmission increased by 3.9 per cent due to lower capitalised overheads associated with lower capital expenditure (\$2.7 million) and a one-off gain on disposal of fixed assets recorded in the prior period (\$1.3 million).

The decline in capital expenditure compared to the previous period is a result of several major terminal station upgrades being completed in the prior period.

The TRR provides funding for key transmission projects, particularly the replacement and refurbishment of several major terminal stations, including Richmond and West Melbourne, which underpin electricity supply to the Melbourne Central Business District. In addition, AusNet Services is undertaking an upgrade of the Brunswick terminal station.

Directors' report

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

Select Solutions business

	30 September 2014	30 September 2013	Movement	%
Segment revenue (\$M)	81.1	74.7	6.4	8.6
Segment result - EBITDA (\$M)	9.7	7.7	2.0	26.0

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 \$81.1 million in total revenues for the period ended 30 September 2014. This excludes revenue earned from services provided to other entities within the Stapled Group. Revenue increased due to the acquisition of Geomatic Technologies in February 2014, which contributed \$6.5 million towards segment revenue. Select Solutions contributed \$9.7 million to EBITDA for the period ended 30 September 2014, an increase of \$2.0 million on the previous period which included a \$1.2 million prior period adjustment.

Financial position as at 30 September 2014

Securityholders' equity was \$3,351.9 million as at 30 September 2014, a decrease of \$92.7 million compared to 31 March 2014. Total securityholders' equity includes 100 per cent of the ownership interests in AusNet Services Transmission and AusNet Services Finance Trust, as they are owned by securityholders directly.

AusNet Services' current liabilities exceed current assets by \$716.4 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 Stapled Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, 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.

Capital management

AusNet Services manages its capital structure to ensure that it continues as a going concern while maximising the return to securityholders as well as providing the flexibility to fund organic growth and other investment opportunities. An appropriate capital structure is also maintained to ensure an efficient cost of capital is available to AusNet Services. Through its cash flows from operations and by maintaining an appropriate and prudent mix of debt and equity, AusNet Services ensures that it achieves its targeted credit metrics that support an 'A' range credit rating.

Debt funding

AusNet Services' common or central funding vehicle (CFV) operates through AusNet Services Holdings Pty Ltd, a subsidiary of AusNet Services Distribution. The Stapled Group has access to funds 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.

Directors' report

Capital management (continued)

Distributions

The final 2014 distribution paid to securityholders on 27 June 2014 was as follows:

	Cents per security	Total distribution \$M
Fully franked dividend paid by AusNet Services Transmission	1.393	47.2
Interest income paid by AusNet Services Finance Trust	2.379	80.6
Return of capital paid by AusNet Services Finance Trust	0.408	13.8
	4.180	141.6

In relation to the final distribution paid on 27 June 2014 of \$141.6 million, \$51.4 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

Since the end of the financial period, the Directors have approved an interim distribution for 2015 of \$143.1 million (4.180 cents per stapled security) to be paid on 24 December 2014, comprised as follows:

	Cents per security	Total distribution \$M
Fully franked dividend payable by AusNet Services Transmission	2.200	75.3
Interest income payable by AusNet Services Finance Trust	1.980	67.8
	4.180	143.1

The DRP will be in operation for the interim distribution to be paid on 24 December 2014.

Directors' report

Material risks and uncertainties

AusNet Services is committed to understanding and effectively managing risk to provide greater certainty and confidence for its securityholders, employees, customers, suppliers and communities in which it operates. AusNet Services maintains oversight of its material business risks (financial and non-financial) at an enterprise-wide level and reports regularly to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. AusNet Services is cognisant of the following principal risks which may materially impact the execution and achievement of its business strategy and financial prospects.

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 amount, \$70 million excess expenditure was incurred in calendar year 2013, and AusNet Services has lodged an Excess Expenditure Application seeking approval of this amount. It is expected that the AER will provide a ruling on this application on 5 December 2014 when it sets the 2015 AMI tariffs.

AusNet Services will seek to recover additional AMI Program expenditure within the regulatory framework through future Excess Expenditure applications. 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.

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.

Directors' report

Material risks and uncertainties (continued)

Taxation risks

(a) ATO review of tax balances and intra-group financing arrangements

On 22 October 2014, the Stapled Group and the ATO reached an in-principle, non-binding agreement to settle all matters concerning intra-group financing arrangements and rights to future income issues. Following execution of a binding settlement deed expected in November 2014, this will result in the Stapled Group:

- making a primary tax payment of \$23.5 million and an interest payment (deductible) of \$1.5 million;
- cancelling \$506.5 million of carried-forward tax losses. Of this, \$393.2 million were previously recognised in the statement of financial position and as such have been written off; and
- ceasing taking interest deductions in respect of AusNet Services Finance Trust loans from 1 April 2014.

This settlement provides tax certainty, with the ATO concluding all audit activity for years up to and including 31 March 2014.

The Stapled Group has accounted for this agreement as an adjusting post-balance date event on the basis that it is probable that a settlement deed will be executed based on these agreed terms, and that the circumstances surrounding the agreement existed as at 30 September 2014.

(b) Section 163AA impost

On 7 April 2014 the Full Court of the Federal Court of Australia delivered judgment against AusNet Services in an appeal against disputed tax amended assessments relating to deductions claimed for amounts imposed under Section 163AA of the *Electricity Industry Act (1993)* (Vic).

The total after tax disputed amount is \$87.8 million as at 30 September 2014 (representing \$54.0 million of primary tax, plus a tax-effected interest component of \$33.8 million). This amount was recognised as a tax charge in the income statement for the year ended 31 March 2014. Of this total disputed amount, AusNet Services paid \$30.6 million to the ATO in October 2011.

In May 2014, an application to the High Court of Australia for special leave to appeal the Full Federal Court decision was lodged. The application hearing is expected to be heard before January 2015. AusNet Services continues to believe that the fees imposed under Section 163AA are deductible.

(c) Intellectual Property

On 25 March 2014 the Federal Court of Australia delivered judgment in favour of AusNet Services in relation to intellectual property deductions claimed in the 1998 to 2011 years, inclusive. The disputed taxes amount to \$52.0 million as at 30 September 2014. Of this amount, AusNet Services paid \$17.1 million to the ATO in October 2011.

The ATO has subsequently lodged a notice of appeal in the Federal Court. It is expected that the appeal will be heard in November 2014, with judgement expected in the first quarter of calendar year 2015.

Directors' report

Material risks and uncertainties (continued)

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.

Environmental regulation and climate change

The Stapled Group was subject to both Federal and State Government environmental legislation during the period. The most significant areas of environmental legislation affecting the Stapled 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 Stapled Group that occurred during the period under review.

Directors' report

Matters subsequent to the end of the financial period

Distribution

Since the end of the financial period, the Directors have approved an interim distribution for 2015 of \$143.1 million (4.180 cents per stapled security) to be paid on 24 December 2014.

ATO settlement

Refer to the 'ATO review of tax balances and intra-group financing arrangements' section within 'Material risks and uncertainties' above. The settlement with the ATO is considered to be an adjusting event and these amounts have been recognised in the financial statements for the period.

With the exception of the matters outlined above, 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 Stapled 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 13 and forms part of the Directors' report for the period ended 30 September 2014.

Rounding of amounts

AusNet Services Distribution 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.



Ng Kee Choe
Chairman



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 (Distribution) Ltd, and of AusNet Services (Transmission) Ltd and the Responsible Entity of AusNet Services Finance Trust, AusNet Services (RE) 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

KPMG

Michael Bray
Partner

Melbourne

11 November 2014

Combined interim income statement

For the period ended 30 September 2014

		30 September	30 September
		2014	2013
	Notes	\$M	\$M
Revenue	2	971.3	961.2
Expenses, excluding finance costs		(631.0)	(558.7)
Profit from operating activities		340.3	402.5
Finance income	4	15.1	15.1
Finance costs	4	(162.0)	(191.4)
Net finance costs		(146.9)	(176.3)
Profit before income tax		193.4	226.2
Income tax expense	5	(198.3)	(128.5)
(Loss)/profit for the period		(4.9)	97.7
Attributable to:			
AusNet Services Distribution		(111.9)	48.1
AusNet Services Transmission and AusNet Services Finance Trust		107.0	49.6
(Loss)/profit for the period		(4.9)	97.7
Earnings per share attributable to the ordinary equityholders of AusNet Services Distribution			
Basic and diluted earnings per share (cents per share)*	7	(3.28)	1.43

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

* Basic earnings per stapled security of the Stapled Group for the period ended 30 September 2014 was a loss of 0.14 cents per security (2013: earnings of 2.90 cents). Refer note 7.

Combined interim statement of comprehensive income

For the period ended 30 September 2014

	30 September 2014	30 September 2013
	\$M	\$M
(Loss)/profit for the period	(4.9)	97.7
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	(16.8)	24.4
Income tax on movement in defined benefit fund	5.1	(7.3)
	(11.7)	17.1
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	20.1	63.1
Income tax on movement in hedge reserve	(6.0)	(19.0)
	14.1	44.1
Other comprehensive income for the period, net of income tax	2.4	61.2
Total comprehensive income for the period	(2.5)	158.9
Attributable to:		
AusNet Services Distribution	(105.1)	103.0
AusNet Services Transmission and AusNet Services Finance Trust	102.6	55.9
Total comprehensive income for the period	(2.5)	158.9

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

Combined 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		674.6	409.8
Receivables		320.1	281.7
Inventories		45.8	42.3
Derivative financial instruments		56.2	0.1
Other assets		20.7	25.0
Total current assets		1,117.4	758.9
Non-current assets			
Receivables		211.6	215.3
Inventories		18.0	17.6
Property, plant and equipment		9,134.9	8,944.3
Intangible assets		392.8	392.8
Derivative financial instruments		324.2	264.2
Tax receivable		17.2	17.1
Other assets		2.5	2.1
Total non-current assets		10,101.2	9,853.4
Total assets		11,218.6	10,612.3
LIABILITIES			
Current liabilities			
Payables and other liabilities		215.7	272.3
Current tax payable	5	106.9	69.7
Borrowings	8	1,312.0	673.6
Provisions		127.5	99.3
Derivative financial instruments		71.7	70.7
Total current liabilities		1,833.8	1,185.6
Non-current liabilities			
Payables and other liabilities		20.5	11.4
Borrowings	8	5,254.4	5,395.6
Provisions		54.2	35.0
Derivative financial instruments		264.9	235.4
Deferred tax liabilities		438.9	304.7
Total non-current liabilities		6,032.9	5,982.1
Total liabilities		7,866.7	7,167.7
Net assets		3,351.9	3,444.6
EQUITY			
Equityholders of AusNet Services Distribution			
Contributed equity	9	0.5	0.5
Reserves		(42.9)	(57.0)
Retained profits		593.9	713.1
		551.5	656.6
Equityholders of AusNet Services Transmission and AusNet Services Finance Trust		2,800.4	2,788.0
Total equity		3,351.9	3,444.6

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

Combined interim statement of changes in equity

For the period ended 30 September 2014

	Notes	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits \$M	Fair value adjustment on stapling (ii) \$M	Other equity component (iii) \$M	Total equity \$M
30 September 2014								
AusNet Services Distribution								
Balance as at 1 April 2014		0.5	-	(57.0)	713.1	-	-	656.6
Total comprehensive income for the period								
Loss for the period		-	-	-	(111.9)	-	-	(111.9)
Other comprehensive income		-	-	14.1	(7.3)	-	-	6.8
Total comprehensive income for the period		-	-	14.1	(119.2)	-	-	(105.1)
Balance as at 30 September 2014		0.5	-	(42.9)	593.9	-	-	551.5
AusNet Services Transmission and AusNet Services Finance Trust								
Balance as at 1 April 2014		650.1	2,714.3	-	467.3	51.4	(1,095.1)	2,788.0
Total comprehensive income for the period								
Profit for the period		-	-	-	107.0	-	-	107.0
Other comprehensive income		-	-	-	(4.4)	-	-	(4.4)
Total comprehensive income for the period		-	-	-	102.6	-	-	102.6
Transactions with owners, recorded directly in equity								
Distribution paid	6	-	(13.8)	-	(127.8)	-	-	(141.6)
Distribution Reinvestment Plan (net of transaction costs)	6	-	51.4	-	-	-	-	51.4
Total transactions with owners		-	37.6	-	(127.8)	-	-	(90.2)
Balance as at 30 September 2014		650.1	2,751.9	-	442.1	51.4	(1,095.1)	2,800.4
Total stapled securityholders' equity as at 30 September 2014		650.6	2,751.9	(42.9)	1,036.0	51.4	(1,095.1)	3,351.9

Combined interim statement of changes in equity

For the period ended 30 September 2014

	Notes	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits \$M	Fair value adjustment on stapling (ii) \$M	Other equity component (iii) \$M	Total equity \$M
30 September 2013								
AusNet Services Distribution								
Balance as at 1 April 2013		0.5	-	(116.7)	692.6	-	-	576.4
Total comprehensive income for the period								
Profit for the period		-	-	-	48.1	-	-	48.1
Other comprehensive income		-	-	44.1	10.8	-	-	54.9
Total comprehensive income for the period		-	-	44.1	58.9	-	-	103.0
Balance as at 30 September 2013		0.5	-	(72.6)	751.5	-	-	679.4
AusNet Services Transmission and AusNet Services Finance Trust								
Balance as at 1 April 2013		650.1	2,708.2	-	546.1	51.4	(1,095.1)	2,860.7
Total comprehensive income for the period								
Profit for the period		-	-	-	49.6	-	-	49.6
Other comprehensive income		-	-	-	6.3	-	-	6.3
Total comprehensive income for the period		-	-	-	55.9	-	-	55.9
Transactions with owners, recorded directly in equity								
Distribution paid	6	-	(2.8)	-	(135.2)	-	-	(138.0)
Distribution Reinvestment Plan (net of transaction costs)	6	-	10.4	-	-	-	-	10.4
Total transactions with owners		-	7.6	-	(135.2)	-	-	(127.6)
Balance as at 30 September 2013		650.1	2,715.8	-	466.8	51.4	(1,095.1)	2,789.0
Total stapled securityholders' equity as at 30 September 2013		650.6	2,715.8	(72.6)	1,218.3	51.4	(1,095.1)	3,468.4

Combined interim statement of changes in equity

For the period ended 30 September 2014

- (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) This amount represents the fair value uplift to the assets of the AusNet Services Transmission Group at the date of stapling. The fair value uplift was applied to easements which are considered to have an indefinite useful life.
- (iii) AusNet Services Transmission other equity component results from the application of reverse acquisition accounting and represents the difference between the net assets of AusNet Services Transmission and AusNet Finance Pty Ltd and the purchase price paid by the legal acquirer, AusNet Services Transmission.

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

Combined interim statement of cash flows

For the period ended 30 September 2014

	Notes	30 September 2014 \$M	30 September 2013 \$M
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		1,039.0	1,015.3
Payments to suppliers and employees (inclusive of goods and services tax)		(487.5)	(482.1)
Payment of MSA termination fee (inclusive of goods and services tax) (i)		(39.3)	-
Income tax paid		(27.8)	(19.5)
Finance income received		11.3	15.2
Finance costs paid		(160.9)	(180.7)
Net cash inflow from operating activities		334.8	348.2
Cash flows from investing activities			
Payments for property, plant and equipment		(423.2)	(475.8)
Proceeds from sale of property, plant and equipment		3.6	0.4
Payment for acquisition of a subsidiary (net of cash acquired)		(0.4)	-
Repayment of desalination licence receivable		4.4	4.4
Net cash outflow from investing activities		(415.6)	(471.0)
Cash flows from financing activities			
Distribution paid (ii)	6	(90.2)	(127.6)
Proceeds from borrowings		799.3	981.9
Repayment of borrowings		(363.5)	(1,259.0)
Net cash inflow/(outflow) from financing activities		345.6	(404.7)
Net increase/(decrease) in cash held		264.8	(527.5)
Cash and cash equivalents at the beginning of the period		409.8	541.0
Cash and cash equivalents at the end of the period		674.6	13.5

(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 \$50.0 million plus recoverable GST, offset by SPIMS employee provisions transferred to AusNet Services of \$15.7 million.

(ii) Amounts shown represent distributions paid of \$141.6 million (2013: \$138.0 million) offset by proceeds from the Distribution Reinvestment Plan of \$51.4 million (2013: \$10.4 million), less transaction costs.

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

Condensed notes to the combined interim financial statements

30 September 2014

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Condensed notes to the combined 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 combined general purpose interim financial report, prepared by a for-profit entity, for the period ended 30 September 2014, represents the consolidated interim financial statements of the Stapled Group, which comprises AusNet Services Distribution and its subsidiaries, AusNet Services Transmission and its subsidiaries and AusNet Services Finance Trust. The Stapled Group is also referred to as AusNet Services.

AusNet Services Distribution, AusNet Services Transmission, AusNet Services Finance Trust, and AusNet Services were formerly known as SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd, SP Australia Networks (Finance) Trust, and SP AusNet respectively up until 4 August 2014.

Pursuant to the Stapling Deed effective 21 October 2005, the Stapled Group was established for the purpose of facilitating a joint quotation of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust on the Australian Securities Exchange and the Singapore Exchange Securities Trading Limited. The Stapled Group was listed on 14 December 2005. The consolidated interim financial statements are presented in accordance with Class Order 13/1050, issued by the Australian Securities and Investments Commission.

This combined general purpose interim financial report has been prepared in accordance with 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 AusNet Services 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.

AusNet Services' current liabilities exceed current assets by \$716.4 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 Stapled Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, 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 Stapled Group in this combined interim financial report are the same as those applied by the Stapled Group in its combined financial report as at and for the year ended 31 March 2014. There have been no new accounting standards relevant to the Stapled Group adopted during the period.

(c) Rounding of amounts

The Stapled 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 combined interim financial statements

30 September 2014

Note 2 Segment information

(a) Description of reportable segments

The Stapled 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 Stapled 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 Stapled Group's 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. The Stapled 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 Stapled Group's gas distribution network covers central and western Victoria.

(iii) *Electricity transmission*

The Stapled Group owns and manages the vast majority of the electricity transmission network in Victoria. The Stapled Group's electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power stations to electricity distributors around Victoria, forming the backbone of the Victorian electricity network. The network is centrally located amongst the five eastern states of Australia that form the National Electricity Market, and provides key links between the electricity transmission networks of Victoria, South Australia, New South Wales and Tasmania. The Stapled Group charges the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network.

The electricity transmission segment includes both regulated and unregulated electricity transmission assets and revenues. The electricity transmission segment does not purchase or sell electricity.

(iv) *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 combined interim financial statements

30 September 2014

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

	Electricity distribution	Gas distribution	Electricity transmission	Select Solutions	Inter- segment eliminations	Combined
	\$M	\$M	\$M	\$M	\$M	\$M
30 September 2014						
Regulated revenue	433.9	112.6	312.7	-	(5.7)	853.5
Customer contributions	10.3	4.4	-	-	-	14.7
Service revenue	-	-	6.2	70.7	-	76.9
Other revenue	3.5	0.5	11.8	10.4	-	26.2
Total segment revenue	447.7	117.5	330.7	81.1	(5.7)	971.3
Segment expense before depreciation and amortisation (i)	(233.9)	(25.5)	(116.8)	(71.4)	5.7	(441.9)
Segment result - EBITDA (ii)	213.8	92.0	213.9	9.7	-	529.4
Depreciation and amortisation	(109.3)	(30.2)	(47.2)	(2.4)	-	(189.1)
Net finance costs						(146.9)
Income tax expense						(198.3)
Loss for the period						(4.9)
30 September 2013						
Regulated revenue	410.2	133.4	316.0	-	(7.0)	852.6
Customer contributions	9.4	4.7	-	-	-	14.1
Service revenue	-	-	5.8	65.6	-	71.4
Other revenue	2.6	0.3	11.1	9.1	-	23.1
Total segment revenue	422.2	138.4	332.9	74.7	(7.0)	961.2
Segment expense before depreciation and amortisation	(187.2)	(19.8)	(112.4)	(67.0)	7.0	(379.4)
Segment result - EBITDA (ii)	235.0	118.6	220.5	7.7	-	581.8
Depreciation and amortisation	(103.0)	(27.4)	(47.0)	(1.9)	-	(179.3)
Net finance costs						(176.3)
Income tax expense						(128.5)
Profit for the period						97.7

(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 Stapled 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.

(ii) Inter-segment revenue

Segment revenues, expenses and results include transmission network connection charges between the electricity distribution and electricity transmission segments. The prices for such transfers are regulated and are eliminated on consolidation.

Condensed notes to the combined interim financial statements

30 September 2014

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) Electricity transmission

Electricity transmission revenue is not seasonal. Transmission revenue is earned in accordance with the monthly revenue schedule determined by the Australian Energy Regulator.

(d) 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	0.1	0.1
Investment income	8.0	7.7
Return on desalination licence receivable	7.0	7.3
Total finance income	15.1	15.1
Finance costs		
Interest expense	172.8	194.7
Other finance charges - cash	1.7	1.8
Other finance charges - non-cash	2.6	2.7
(Gain)/loss on accounting for hedge relationships	(4.7)	6.3
Unwind of discount on provisions	1.2	0.2
Defined benefit net interest expense	-	0.5
Capitalised finance charges	(11.6)	(14.8)
Total finance costs	162.0	191.4
Net finance costs	146.9	176.3

Condensed notes to the combined interim financial statements

30 September 2014

Note 5 Taxation**(a) Numerical reconciliation of income tax expense to prima facie tax payable**

		30 September	30 September
		2014	2013
	Notes	\$M	\$M
Profit before income tax expense		193.4	226.2
Tax at the Australian tax rate of 30% (2013: 30%)		58.0	67.9
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:			
Non-assessable interest income (i)		-	(24.3)
ATO settlement cash payment (i)		24.6	-
ATO settlement - cancellation of tax losses (i)		118.0	-
Net tax and interest on section 163AA impost dispute (ii)	13(a)	1.1	86.7
Prior year (over)/under provision		(2.6)	(1.1)
Sundry items		(0.8)	(0.7)
Income tax expense		198.3	128.5

The Stapled Group's effective tax rate for the period ended 30 September 2014 was approximately 102.5 per cent (2013: 56.8 per cent). The divergence in the effective tax rate from the prima facie rate of 30 per cent is mainly caused by the following:

- (i) On 22 October 2014, the Stapled Group 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. Following execution of a binding settlement deed expected in November 2014, this will result in the Stapled Group:
- making a primary tax payment of \$23.5 million and an interest payment (deductible) of \$1.5 million;
 - cancelling \$506.5 million of carried-forward tax losses. Of this, \$393.2 million were previously recognised in the statement of financial position and as such have been written off; and
 - ceasing taking interest deductions in respect of AusNet Services Finance Trust loans from 1 April 2014.
- This settlement provides tax certainty, with the ATO concluding all audit activity for years up to and including 31 March 2014.
- (ii) Recognition during the previous period of \$100.8 million for the amount potentially payable under the Section 163AA impost dispute. This is offset by the deductibility of the general interest component which results in a \$14.1 million tax credit. Refer note 13(a).

(b) Reconciliation of current tax payable

	30 September	31 March
	2014	2014
	\$M	\$M
Net amount potentially payable under Section 163AA impost dispute	57.2	56.1
ATO settlement payment for intra-group financing arrangements	24.6	-
Other current tax payable	25.1	13.6
	106.9	69.7

Condensed notes to the combined interim financial statements

30 September 2014

Note 6 Distributions

The following distribution was approved and paid by AusNet Services to securityholders during the current interim financial period:

	Paid by	Date paid	Cents per security	Total distribution \$M
Distribution				
Fully franked dividend	AusNet Services Transmission	27 June 2014	1.393	47.2
Interest income	AusNet Services Finance Trust	27 June 2014	2.379	80.6
Return of capital	AusNet Services Finance Trust	27 June 2014	0.408	13.8
Total distribution			4.180	141.6

The following distribution was approved and paid by AusNet Services to securityholders during the previous interim financial period:

Distribution				
Fully franked dividend	AusNet Services Transmission	28 June 2013	1.367	46.0
Interest income	AusNet Services Finance Trust	28 June 2013	2.649	89.2
Return of capital	AusNet Services Finance Trust	28 June 2013	0.084	2.8
Total distribution			4.100	138.0

In relation to the distribution paid in the current financial period of \$141.6 million (2013: \$138.0 million), \$51.4 million (2013: \$10.4 million) less transaction costs was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

Note 7 Earnings per stapled security**(a) Basic earnings per stapled security**

As the stapling is a business combination by contract alone, the total ownership interest in AusNet Services Transmission and AusNet Services Finance Trust is presented as non-controlling interest in the combined interim financial statements of AusNet Services Distribution.

By virtue of the stapling arrangement, AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust have common equityholders (the securityholders) with the effect that total equity belongs to the securityholders. Therefore an alternative measure of earnings per stapled security has been calculated which includes non-controlling interest and hence the earnings of AusNet Services Transmission and AusNet Services Finance Trust.

	30 September 2014	30 September 2013
(Loss)/profit attributable to the ordinary securityholders of the Stapled Group (\$M)	(4.9)	97.7
Weighted average number of securities (million)	3,406.9	3,372.1
Earnings per stapled security (cents)	(0.14)	2.90

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Note 7 Earnings per stapled security (continued)**(b) Diluted earnings per stapled security**

There were no factors causing a dilution of either the profit or loss attributable to ordinary securityholders or the weighted average number of ordinary securities outstanding. Accordingly, basic and diluted earnings per share are the same.

(c) Basic and diluted earnings per share for AusNet Services Distribution

	30 September 2014	30 September 2013
(Loss)/profit attributable to the ordinary equityholders of AusNet Services Distribution (\$M)	(111.9)	48.1
Weighted average number of shares (million)	3,406.9	3,372.1
Earnings per share (cents)	(3.28)	1.43

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Note 8 Borrowings

		30 September 2014 \$M	31 March 2014 \$M
Current Borrowings	Maturity date		
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 francs (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	454.7	433.1
Bank debt facilities	2017-2019	396.6	296.2
Swiss francs (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		5,254.4	5,395.6
Total borrowings (ii)		6,566.4	6,069.2

- (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 was \$7,065.5 million (31 March 2014: \$6,535.2 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. AusNet Services has \$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 an A3 credit rating from Moody's Investor Services.

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Note 9 Equity**Movements in ordinary share capital**

Date	Details	Notes	Number of shares	\$M
1 April 2014	Opening balance		3,386,607,080	0.5
27 June 2014	Distribution reinvestment plan	(i)	38,637,082	-
30 September 2014	Closing balance		3,425,244,162	0.5

- (i) On 27 June 2014, 38.6 million new stapled securities were issued under the DRP. The new securities were issued at a price of \$1.33 per security providing approximately \$51.4 million. These proceeds were allocated to units in AusNet Services Finance Trust, with the shares in AusNet Services Transmission and AusNet Services Distribution being issued at nominal consideration.

Note 10 Financial risk management

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

The use of financial derivatives is governed by the Stapled 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 Stapled Group is to minimise the exposure to changes in interest rates and foreign exchange rates. Changes in interest rates are hedged by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant regulated business for each regulatory reset period.

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

The Stapled Group's financial risk management objectives and policies are consistent with those disclosed in the combined financial report as at and for the year ended 31 March 2014.

Note 11 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 Stapled 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 Stapled Group are consistent with those applied and disclosed in the combined financial report as at and for the year ended 31 March 2014.

The Stapled Group also has a number of financial assets and liabilities which are not measured at fair value in the combined 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.

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Note 12 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 combined interim financial report, the key sources of estimation uncertainty were the same as those that applied to the combined 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 Stapled 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 Stapled Group for the period ended 30 September 2014.

Note 13 Contingent liabilities and contingent assets

Details of contingent liabilities and contingent assets of the Stapled Group are as follows:

(a) Section 163AA impost

During August 2011, the ATO issued amended assessments to AusNet Services in respect of the 2001 to 2006 income years, disallowing deductions claimed in respect of fees imposed under Section 163AA of the *Electricity Industry Act 1993* (Vic) in the 1999 to 2001 tax years. Under the amended assessments, the amount of primary tax payable is \$54.0 million.

In October 2011, AusNet Services paid \$30.6 million under a part-payment arrangement agreed with the ATO. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments.

AusNet Services lodged a notice of appeal and other documents in the Federal Court, appealing the ATO's amended assessments. On 12 September 2013, the Federal Court delivered judgement against AusNet Services' appeal. On the basis of this ruling, AusNet Services recognised the full amount potentially payable in the financial statements net of the amount part-paid. As at 30 September 2014 the net tax potentially payable is \$57.2 million.

In May 2014, an application to the High Court of Australia for special leave to appeal the Full Federal Court decision was lodged. The application hearing is expected to be heard before January 2015. AusNet Services continues to believe that the fees imposed under Section 163AA are deductible.

(b) Intellectual Property

During September 2011 and October 2011, the ATO issued amended assessments to AusNet Services in respect of the 2001 to 2010 income years, disallowing deductions claimed in respect of intellectual property in each of those income years. Under the amended assessments, the amount payable is \$44.0 million (representing \$27.4 million of primary tax, plus an interest and administrative penalty component of \$16.6 million).

In November 2011, AusNet Services lodged notices of objection in relation to the amended assessments issued, with AusNet Services making a part-payment of \$17.1 million. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments. As at 30 September 2014, the total amount in dispute for intellectual property deductions, including additional accrued interest on the unpaid portion of the amended assessments, is \$52.0 million.

AusNet Services lodged a notice of appeal and other documents in the Federal Court. The Federal Court delivered judgement in favour of AusNet Services on 25 March 2014. The ATO subsequently lodged a notice of appeal in the Federal Court on 15 April 2014. It is expected that the appeal will be heard by the Full Court of the Federal Court in November 2014, with judgement expected in the first quarter of calendar year 2015. The \$17.1 million part-payment continues to be recognised as a non-current receivable at 31 March 2014.

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Note 13 Contingent liabilities and contingent assets (continued)

(c) 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.

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Note 14 Events occurring after the balance sheet date**(a) Distribution**

Since the end of the financial period, the Directors have approved an interim distribution for 2015 of \$143.1 million (4.180 cents per stapled security) to be paid on 24 December 2014 comprised as follows:

	Cents per security	Total distribution \$M
Fully franked dividend payable by AusNet Services Transmission	2.200	75.3
Interest income payable by AusNet Services Finance Trust	1.980	67.8
	4.180	143.1

(b) ATO settlement

On 22 October 2014, the Stapled Group and the ATO reached an in-principle, non-binding agreement to settle all matters concerning intra-group financing arrangements and rights to future income issues. Following execution of a binding settlement deed expected in November 2014, this will result in the Stapled Group:

- making a primary tax payment of \$23.5 million and an interest payment (deductible) of \$1.5 million;
- cancelling \$506.5 million of carried-forward tax losses. Of this, \$393.2 million were previously recognised in the statement of financial position and as such have been written off; and
- ceasing taking interest deductions in respect of AusNet Services Finance Trust loans from 1 April 2014.

This settlement provides tax certainty, with the ATO concluding all audit activity for years up to and including 31 March 2014.

The Stapled Group has accounted for this agreement as an adjusting post-balance date event on the basis that it is probable that a settlement deed will be executed based on these agreed terms, and that the circumstances surrounding the agreement existed as at 30 September 2014.

(c) Other matters

Other than outlined above, 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:

- the operations in financial periods subsequent to 30 September 2014 of the Stapled Group;
- the results of those operations; or
- the state of affairs, in financial periods subsequent to 30 September 2014, of the Stapled Group.

Directors' declaration

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

- (a) the interim financial statements and notes set out on pages 14 to 33, 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 combined entity's financial position as at 30 September 2014 and its performance for the six month period ended on that date.
- (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.



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
11 November 2014

Independent auditor's review report to the members of AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd and AusNet Services Finance Trust

Report on the financial report

We have reviewed the accompanying interim financial report of AusNet Services (Distribution) Ltd ("the Company"), which comprises the combined interim statement of financial position as at 30 September 2014, combined interim income statement and combined interim statement of comprehensive income, combined interim statement of changes in equity and combined interim statement of cash flows for the interim period ended on that date, notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration. The combined interim financial report of AusNet Services (Distribution) Ltd comprises the financial statements of AusNet Services (Distribution) Ltd and the entities it controlled at the half-year's end or from time to time during the interim period, AusNet Services (Transmission) Ltd and the entities it controlled at the interim period's end or from time to time during the interim period and AusNet Services Finance Trust ("The Combined Entity").

Directors' responsibility for the interim financial report

The directors of the Company, and of AusNet Services (Transmission) Ltd, and the directors of the responsible entity of AusNet Services Finance Trust, AusNet Services (RE) Ltd, 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 Combined Entity'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 (Distribution) Ltd, AusNet Services (Transmission) Ltd and AusNet Services Finance Trust, 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 the Combined Entity is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Combined Entity'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

KPMG

Michael Bray
Partner

Melbourne

11 November 2014