

ASX & SGX-ST Release



22 April 2015

TO: ASX Limited
Singapore Exchange Securities Trading Limited

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Southbank Victoria 3006
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www.ausnetservices.com.au

AusNet Services Restructure Proposal

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 (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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AusNet Services Restructure Proposal

AusNet Services today releases the Securityholder Booklet in relation to the proposal for a restructure under which a new company called AusNet Services Ltd (**NewCo**) will become the single head of AusNet Services in place of its current triple-stapled structure (the **Proposal**).

If the Proposal is implemented, Eligible Securityholders* will receive one ordinary share in NewCo for every AusNet Services stapled security held on the record date for the Proposal. It is currently expected that the last day of trading of AusNet Services stapled securities will be Friday, 5 June 2015 and that the Proposal will be implemented on Thursday, 18 June 2015.

Following application to the Supreme Court of Victoria, meetings of AusNet Services securityholders are to be convened to vote on schemes of arrangement, followed by general meetings, to effect the Proposal. The meetings will be held from **9.30am** (Melbourne time) at Meeting Room 220, Melbourne Convention and Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria on **Friday, 29 May 2015**.

The Securityholder Booklet contains an Independent Expert's Report from Lonergan Edwards and Associates Limited, which concludes that the Proposal is in the best interests of AusNet Services securityholders. The Directors of AusNet Services unanimously recommend that securityholders vote in favour of the resolutions to be considered at the meetings.

The Securityholder Booklet is attached and will be mailed to AusNet Services securityholders shortly (together with Proxy and Voting Instruction Forms) and will also be available at www.ausnetservices.com.au. An Information Memorandum in relation to NewCo is also being lodged with ASX today.

AusNet Services securityholders should carefully read the Securityholder Booklet before making a decision on how to vote on the resolutions to be considered at the meetings

Susan Taylor
Company Secretary

** Certain foreign securityholders will not receive NewCo shares, but will instead have their investment in AusNet Services sold 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. For full and further details please refer to the Securityholder Booklet.*

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Securityholder Booklet – Proposal for a restructure under which a new company called AusNet Services Ltd will become the single head entity of AusNet Services

VOTE IN FAVOUR

Your AusNet Services Directors unanimously recommend that you vote in favour of the Proposal.

The Independent Expert has concluded that the Proposal is in the best interests of AusNet Services Securityholders.

Explanatory statement dated 22 April 2015

AusNet Services (Distribution) Ltd (ABN 37 108 788 245)

AusNet Services (Transmission) Ltd (ABN 48 116 124 362)

AusNet Services (RE) Ltd (ABN 46 109 977 371) (AFSL No. 294117) as responsible entity of **AusNet Services Finance Trust** (ARSN 116 783 914)

This is an important document and requires your immediate attention. You should read this Securityholder Booklet in full before deciding whether or not to vote in favour of the Resolutions to facilitate the Proposal and, if necessary, seek advice from your financial, accounting, legal, tax and/or other professional adviser(s).

You can call the AusNet Services Securityholder Information Line on 1300 723 186 (within Australia) or on +61 3 9415 4275 (outside Australia) at any time from 8.30am to 5.00pm (Melbourne time) Monday to Friday if you have any questions.



Important notices

This Securityholder Booklet is issued by AusNet Services which comprises AusNet Services (Distribution) Ltd (ABN 37 108 788 245), AusNet Services (Transmission) Ltd (ABN 48 116 124 362) and AusNet Services (RE) Ltd (ABN 46 109 977 371) (AFSL No. 294117) as responsible entity of AusNet Services Finance Trust (ARSN 116 783 914).

This Securityholder Booklet contains details of a Proposal to restructure and simplify AusNet Services' existing corporate structure so that a new company called **AusNet Services Ltd** (referred to in this Securityholder Booklet as **NewCo**) will become the single head entity of the AusNet Services group, and describes the Securityholder approvals that are required to implement the Proposal.

It is important that you read the Securityholder Booklet before voting on the Resolutions to be considered at the Meetings, and if necessary, contact your financial, accounting, legal, tax and/or other professional adviser(s).

Status of this Securityholder Booklet

This Securityholder Booklet comprises an explanatory statement and notices of meetings for AusNet Services Securityholders in relation to the Resolutions required to implement the Proposal, including an explanatory statement required by section 412(1) of the Corporations Act in relation to each of the Company Schemes.

Lodgement and listing

A copy of this Securityholder Booklet has been lodged with, and registered by, ASIC for the purposes of section 412(6) of the Corporations Act. ASIC has been requested to provide a statement, in accordance with section 411(7)(b) of the Corporations Act, that ASIC has no objection to the Company Schemes. If ASIC provides that statement, it will be produced to the Court at the time of the Second Court Hearing.

NewCo will apply for admission to the official list of ASX and quotation of NewCo Shares on ASX within 7 days after the date of this Securityholder Booklet, such applications being conditional on the Schemes becoming Effective.

The fact that ASX may admit NewCo to the official list does not represent any statement regarding, and should not be taken in any way as an indication of, the merits of the Proposal. A copy of this Securityholder Booklet has been lodged with ASX.

In respect of the secondary listing of NewCo on the SGX-ST, SGX-ST has confirmed that NewCo is not required to submit a new listing application to SGX-ST nor undergo any listing process with SGX-ST, and that NewCo will be required to comply with the same continuing listing requirements in respect of NewCo's secondary listing on the SGX-ST as those that are applicable to AusNet Services.

The confirmation provided by SGX-ST does not represent any statement regarding, and should not be taken in any way as an indication of, the merits of the Proposal.

None of ASIC, ASX, SGX-ST or their respective officers take any responsibility for the contents of this Securityholder Booklet.

Important notice associated with Court orders under subsection 411(1) of the Corporations Act

The fact that under subsection 411(1) of the Corporations Act the Court has ordered that a meeting be convened does not mean that the Court:

- > has formed any view as to the merits of the proposed Company Schemes or as to how members should vote (on this matter members must reach their own decision), or
- > has prepared, or is responsible for the content of, this Securityholder Booklet.

The above important notice applies equally in relation to the giving of judicial advice by the Court in relation to the Trust Scheme.

Responsibility for information

Except for the Investigating Accountant's Report, the Independent Expert's Report, the Australian Tax Letter and the Singapore Tax Letter, this Securityholder Booklet has been prepared by, and is the responsibility of, AusNet Services.

Deloitte Lawyers Pty Ltd (ABN 91 099 885 800) has prepared the Australian Tax Letter set out in section 4 and takes responsibility for that letter. Deloitte & Touche LLP has prepared the Singapore Tax Letter set out in section 5 and takes responsibility for that letter.

Loneragan Edwards & Associates Limited (ABN 53 095 445 560) (AFSL No. 246532) has prepared the Independent Expert's Report set out in Annexure A, and takes responsibility for that report.

KPMG Transaction Services, a division of KPMG Financial Advisory Services (Australia) Pty Ltd (ABN 43 007 363 215) (AFSL No. 246901), has prepared the Investigating Accountant's Report set out in Annexure B and takes responsibility for that report.

Not investment advice

The information provided in this Securityholder Booklet is not financial product advice and is general information only and has been prepared without taking into account your individual investment objectives, financial circumstances or particular needs. Accordingly, nothing in this Securityholder Booklet should be construed as a recommendation or statement of opinion by AusNet Services or any other person concerning an investment in AusNet Services.

Privacy and personal information

AusNet Services may collect personal information in the process of conducting the Meetings, implementing the Proposal and administering the securityholdings arising from the Proposal. The personal information may include the names, addresses, other contact details and details of the securityholdings of AusNet Services Securityholders, and the names of individuals appointed by AusNet Services Securityholders as proxies, corporate representatives or attorneys at the Meetings.

AusNet Services Securityholders who are individuals, and the other individuals in respect of whom personal information is collected as outlined above, have certain rights to access the personal information collected in relation to them. Such individuals should contact the Registry on 1300 850 505 (within Australia) or on +61 3 9415 4000 (outside Australia) on Business Days from 8.30am to 5.00pm (Melbourne time) in the first instance if they wish to request access to that personal information.

The personal information is collected for the primary purpose of implementing the Proposal and administering the AusNet Services securityholdings arising from the Proposal. The personal information may be disclosed to the Registry, to securities brokers, to print and mail service providers and to any other service providers and advisers engaged by AusNet Services for this purpose.

The main consequence of not collecting the personal information outlined above would be that AusNet Services may be hindered in, or prevented from, conducting the Meetings and implementing the Proposal. AusNet Services Securityholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Meetings should inform such individual of the matters outlined above.

Foreign jurisdictions

This Securityholder Booklet does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. Other than as set out in this Securityholder Booklet, no action has been taken to register the AusNet Services Stapled Securities or NewCo Shares or otherwise permit an offering of NewCo Shares in any jurisdiction outside of Australia.

The distribution of this Securityholder Booklet (electronically or otherwise) outside Australia may be restricted by law. If you come into possession of this Securityholder Booklet (electronically or otherwise), you should observe any such restrictions and should seek your own advice on such restrictions. Any failure to comply with such restrictions may contravene applicable securities laws.

Hong Kong

WARNING: The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to this document. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This document is strictly confidential to the person to whom it is addressed and may not be provided, assigned or transferred to any other person. If you are not the intended recipient of this document, you are hereby notified that any review, dissemination, distribution, publication or reproduction (in whole or in part) of this document to any person in Hong Kong is strictly prohibited except to your professional advisers under duties of confidentiality.

This document is not a prospectus within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32, The Laws of Hong Kong) ("CO") nor is it an offer or invitation to the public within the meaning of the CO and the Securities and Futures Ordinance (Chapter 571, The Laws of Hong Kong) ("SFO"), or an advertisement, invitation or document subject to section 103(1) of the SFO. This document and the contents within have not been authorised by the Hong Kong Securities and Futures Commission.

No advertisement, invitation or document relating to the Proposal (including disposal of AusNet Services Stapled Securities and subscription for NewCo Shares) may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made thereunder.

No person allotted NewCo Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

United States

This Securityholder Booklet does not constitute an offer to any person in the US, any U.S. Person (as that term is defined in Regulation S under the United States Securities Act of 1933), or any person acting for the account or benefit of a U.S. Person. Securities may not be offered or sold in the US or to, or for the account or benefit of, U.S. Persons unless they are registered under the Securities Act or exempt from registration. AusNet Services and NewCo intend to rely on an exemption from the registration of the Securities Act provided under section 3(a)(10) of that act in connection with the Proposal and the issue of the NewCo Shares.

See section 1.14 for information about Foreign Securityholders' ability to Participate in the Proposal.

Disclaimer

No person is authorised to give any information or make any representation in connection with the Proposal which is not contained in this Securityholder Booklet. Any information or representation not contained in this Securityholder Booklet may not be relied on as having been authorised by AusNet Services in connection with the Proposal.

Forward-looking statements

This Securityholder Booklet contains forward-looking statements which are identified by words such as "may", "could", "believes", "estimates", "expects", "intends", and other similar words that involve risks and uncertainties. These forward-looking statements are subject to various risk factors that could cause actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out in sections 1.4 and 2.4 of this Securityholder Booklet. These and other factors could cause actual results to differ materially from those expressed in any forward-looking statement contained in this Securityholder Booklet.

Past performance information

This Securityholder Booklet contains information relating to the past performance of AusNet Services. Past performance information may not be a reliable indicator of the performance of AusNet Services going forward.

Up-to-date information

AusNet Services will issue or procure the issue of a supplementary document to this Securityholder Booklet if AusNet Services becomes aware of any of the following between the date of this Securityholder Booklet and the Implementation Date:

- > a material statement in this Securityholder Booklet is misleading or deceptive
- > a material omission from this Securityholder Booklet, or
- > a new circumstance has arisen which would have been required to be included in this Securityholder Booklet if known at the date of this Securityholder Booklet.

However, if the change will not be materially adverse, a supplementary document may not be issued. Updated information that is not materially adverse may change from time to time, and may be made available to you in various ways, including on AusNet Services' website at www.ausnetservices.com.au or on the AusNet Services Securityholder Information Line 1300 723 186 (within Australia) or +61 3 9415 4275 (outside Australia) at any time from 8.30am to 5.00pm (Melbourne time) Monday to Friday. A paper copy of any updated information made available on the AusNet Services website will be available for free on request.

Estimates

Unless otherwise indicated, all references to estimates and derivations of the same in this Securityholder Booklet are references to estimates by AusNet Services. Management estimates are based on views at the date of this Securityholder Booklet and actual facts or outcomes may be different from those estimates.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Securityholder Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Securityholder Booklet.

Financial amounts and currency

Monetary amounts referred to in this Securityholder Booklet are in Australian dollars unless otherwise indicated.

Definitions and abbreviations

Defined terms and abbreviations used in this Securityholder Booklet are explained in the Glossary at the end of this Securityholder Booklet.

Date of this Securityholder Booklet

This Securityholder Booklet is dated 22 April 2015.

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Key dates and Meeting details

Key Dates

Event	Indicative Date (Melbourne time)
Date of the First Court Hearing at which the Court ordered the convening of the Scheme Meetings	Tuesday, 21 April 2015
For CDP Account Holders: latest time and date by which the orange CDP Voting Instruction Form must be received by CDP	5.00pm (Singapore time) on Wednesday, 20 May 2015
Last day for requests to transfer AusNet Services Stapled Securities between ASX and SGX-ST, to be received by the Registry or CDP (as relevant)	Monday, 25 May 2015
Latest time and date by which the blue Scheme Meetings Proxy Form and the green General Meetings Proxy Form must be received by the Registry	10.00am on Wednesday, 27 May 2015
Time and date for determining eligibility to vote at the Meetings	7.00pm on Wednesday, 27 May 2015
Scheme Meetings to be held at Meeting Room 220, Melbourne Convention & Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia	from 9.30am on Friday, 29 May 2015
General Meetings to be held at Meeting Room 220, Melbourne Convention & Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia	10.00am (or as soon thereafter as the Scheme Meetings have concluded or been adjourned) on Friday, 29 May 2015

Following the Meetings

Event	Indicative Date
Inquiry hearing before the Court	Monday, 1 June 2015
Date of the Second Court Hearing for approval of the Schemes and grant of judicial advice	Thursday, 4 June 2015
Effective Date	Friday, 5 June 2015
Last day of trading in AusNet Services Stapled Securities on ASX and SGX-ST	
NewCo Shares commence trading on a deferred settlement basis on ASX and on a "when issued basis" on SGX-ST	Tuesday, 9 June 2015
Record Date	7.00pm (Melbourne time) 5.00pm (Singapore time) on Thursday, 11 June 2015
All Securityholders on the Register at this time will be entitled to Participate in the Proposal unless they are Ineligible Foreign Securityholders	
CDP Account Holders' eligibility to Participate in the Proposal through CDP will be assessed based on the CDP Register at the same time	
Implementation Date	Thursday, 18 June 2015
Eligible Securityholders receive NewCo Shares	
Despatch of holding statements for NewCo Shares to Securityholders and notification letters to CDP Account Holders	Friday, 19 June 2015
NewCo Shares commence trading on a normal T+3 settlement basis on ASX and SGX-ST	
Settlement of on-market trades conducted on a deferred settlement basis on ASX and on a "when issued basis" on SGX-ST and first settlement of trades conducted on a normal T+3 settlement basis on ASX and SGX-ST	Wednesday, 24 June 2015

Other than the date of the First Court Hearing, all dates and times are indicative only. AusNet Services reserves the right to vary these dates and times. Unless otherwise specified, all dates and times in this Securityholder Booklet refer to the time in Melbourne, Australia. AusNet Services will make an announcement to ASX if any changes occur.

Location of Meetings

The details of the Scheme Meetings and General Meetings are as follows:

Date	Friday, 29 May 2015
Commencement of Scheme Meetings	from 9.30am (Melbourne time)
Commencement of General Meetings	10.00am (Melbourne time) (or as soon thereafter as the Scheme Meetings have concluded or been adjourned)
Venue	Meeting Room 220, Melbourne Convention & Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia

What should you do next?

Step 1: Carefully read this Securityholder Booklet

You should read this Securityholder Booklet in full before making any decision on how to vote on the Resolutions required to implement the Proposal.

If you have any questions, you can call the AusNet Services Securityholder Information Line on 1300 723 186 (within Australia) or on +61 3 9415 4275 (outside Australia) at any time from 8.30am to 5.00pm (Melbourne time) Monday to Friday. If necessary, you should seek your own independent advice on any aspect of the Proposal about which you are not certain.

Step 2: Vote at the Scheme Meeting and General Meeting

Who is entitled to vote?

AusNet Services Securityholders who are registered on the Register at 7.00pm on Wednesday, 27 May 2015 may vote at the Scheme Meetings and the General Meetings.

How to vote

Securityholders may vote at the Scheme Meetings and the General Meetings:

- > **In person**, by attending the Meetings. If you wish to vote in person at the Meetings, please arrive at least 30 minutes prior to the time designated for the meeting so that we may check the number of your AusNet Services Stapled Securities and note your attendance. The Scheme Meetings will be held on Friday, 29 May 2015 commencing from 9.30am (Melbourne time), and the General Meetings will commence at 10.00am (Melbourne time) (or as soon thereafter as the Scheme Meetings have concluded or been adjourned).

- > **By attorney or corporate representative.** You may appoint an attorney or, in the case of a company, a corporate representative, to vote on your behalf.

Those persons attending as an attorney must bring the original power of attorney unless AusNet Services has already noted it. The power of attorney must be returned in the same manner, and at the same time, as outlined for the Proxy Forms below.

Those persons attending as a corporate representative must bring evidence of their authority, such as a letter or certificate evidencing their appointment.

- > **By proxy:**

1. by lodging a proxy online via www.investorvote.com.au and following the instructions provided
2. by mailing the enclosed blue Scheme Meetings Proxy Form and green General Meetings Proxy Form to Computershare Investor Services Pty Limited, GPO Box 242 Melbourne, Victoria 3001 Australia using the reply paid envelope provided
3. by faxing the enclosed blue Scheme Meetings Proxy Form and green General Meetings Proxy Form to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia), or
4. by hand delivering the enclosed blue Scheme Meetings Proxy Form and green General Meetings Proxy Form to Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford, VIC 3067, Australia.

To be valid, a Proxy Form must be received by the Registry by 10.00am on Wednesday, 27 May 2015. For further information on proxy voting, please refer to the detailed instructions contained in your Proxy Forms.

Further information on the procedure for voting at the Meetings can be found in Key dates and Meeting details, section 6.9 and the notices of meetings at Annexure F and G of this Securityholder Booklet.

AusNet Services Stapled Securities listed on SGX-ST and deposited with CDP

If your AusNet Services Stapled Securities are listed on SGX-ST and deposited with CDP, you do not have the right to vote as a Securityholder because your AusNet Services Stapled Securities are registered in the name of CDP. In order to vote, your voting instructions must be received by CDP by 5.00pm (Singapore time) on Wednesday, 20 May 2015. Instructions on how to lodge your voting instructions with CDP are included in the CDP Voting Instruction Form accompanying the notices of Meetings at Annexures F and G of this Securityholder Booklet. If you wish to attend the Meetings, please follow the procedures set out in the CDP Voting Instruction Form.

Step 3: Participate in the Proposal

If you are eligible and wish to Participate in the Proposal you will need to ensure that you hold your AusNet Services Stapled Securities on the Record Date at 7.00pm on Thursday, 11 June 2015.

Otherwise you do not need to do anything to Participate in the Proposal.

The first day you can trade NewCo Shares that you will receive under the Proposal is Tuesday, 9 June 2015 on a deferred settlement basis on ASX and on a "when issued basis" on SGX-ST. On this day, you will not have received your holding statement which sets out the number of NewCo Shares you hold. If you trade your NewCo Shares on ASX and SGX-ST in this period you do so at your own risk.

Holding statements are expected to be despatched on Friday, 19 June 2015 and you should receive your holding statement in the subsequent days. Normal T+3 settlement trading of NewCo Shares will commence on Friday, 19 June 2015. Settlement of on-market trades conducted on a deferred settlement basis on ASX and on a "when issued basis" on SGX-ST as well as settlement of trades conducted on 19 June 2015 on a normal T+3 settlement basis on ASX and SGX-ST will be on 24 June 2015.

Foreign Securityholders

Foreign Securityholders with a registered address in the following jurisdictions can Participate in the Proposal: New Zealand, Singapore, Hong Kong*, Malaysia*, Japan, United States, Canada, United Kingdom*, Switzerland*, Norway* and Germany*. Participation in jurisdictions marked with * is subject to certain criteria – see section 1.14.

Securityholders in other jurisdictions are expected to be Ineligible Foreign Securityholders. Ineligible Foreign Securityholders will not receive NewCo Shares under the Proposal, but will instead receive the proceeds from the sale of the NewCo Shares which they would have otherwise received, together with an amount representing the AusNet Services distribution for the second half of the financial year ending 31 March 2015.

Foreign Securityholders should refer to section 1.14 for further information.

CDP Account Holders

CDP Account Holders do not participate directly in the Proposal, but only through CDP as the registered Securityholder. CDP Account Holders should refer to section 6.4 for further information.

Letter to AusNet Services Securityholders

Dear AusNet Services Securityholders,

This Securityholder Booklet provides information in relation to a Proposal to restructure AusNet Services. If the Proposal is implemented, eligible securityholders will receive one share in a new entity called AusNet Services Ltd for each AusNet Services Stapled Security they hold. The underlying business and assets of AusNet Services will not change under the Proposal and therefore the economic interest of AusNet Services Securityholders will not change.

The AusNet Services Directors believe that the complexity of AusNet Services' current corporate structure is no longer appropriate and that the Proposal achieves a number of key benefits:

- > Simplification and potential broader investor appeal
- > Reduced administration
- > Greater certainty of tax position in relation to capital structure
- > Facilitates the efficient repayment of AusNet Services Trust Loans
- > Improved ability to distribute available franking credits

These benefits are further explained in section 1.3. There are also a number of disadvantages and risks of the Proposal, including:

- > Profile of future distributions may not suit all investors and no ability to make tax deferred distributions
- > Transaction costs
- > Potential stamp duty liability triggered by any further restructure of AusNet Services subsequent to this Proposal (no such restructure is currently expected)

The Proposal leads to the cancellation of AusNet Services' pre-2005 tax losses but this is expected to be offset by an increase in the tax base of certain assets as a consequence of the application of the tax consolidation provisions. See section 1.4 for more information.

Because the Proposal achieves the benefits listed above, the AusNet Services Directors believe that the Proposal is in the best interests of AusNet Services Securityholders and unanimously recommend that you vote in favour of the Resolutions.

Loneragan Edwards, the Independent Expert who has considered the Proposal, has concluded that the Proposal is in the best interests of AusNet Services Securityholders because the advantages of the Proposal outweigh the disadvantages. The Independent Expert has opined that the key advantages of the Proposal are:

- > Removal of different tax treatment of interest income and interest expense on intergroup loans
- > Improved ability to distribute available franking credits
- > Improved ability to distribute gross income in the long term
- > Higher tax depreciation charges reducing AusNet Services' tax liabilities
- > Simplification resulting in internal cost savings and potential greater investor appeal
- > Improved funding flexibility

The full Independent Expert's Report, which sets out the full reasons for this conclusion and which you are encouraged to read in full, is Annexure A to this Securityholder Booklet.

The AusNet Services Directors considered a number of alternatives to the Proposal, including to maintain the current structure and to replace the AusNet Services Stapled Securities with different stapled securities, including debt and equity securities. After careful consideration, the AusNet Services Board determined that the Proposal is the preferred option in the interests of AusNet Services Securityholders going forward because it best achieves the benefits listed above.

The Proposal requires the approval of AusNet Services Securityholders at Meetings to be held on:

Friday, 29 May 2015 from 9.30am

at Meeting Room 220, Melbourne Convention & Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia.

We encourage you all to attend the Meetings or to vote by proxy as outlined on page 5 of this Securityholder Booklet. Before determining how to vote on the Resolutions, we encourage you to read the information in this Securityholder Booklet, including the Independent Expert's Report.

If you have any questions in relation to the Proposal, the Meetings or this Securityholder Booklet, please call the AusNet Services Securityholder Information Line on 1300 723 186 (within Australia) or on +61 3 9415 4275 (outside Australia) at any time from 8.30am to 5.00pm (Melbourne time) Monday to Friday.

The Proposal is a further step on AusNet Services' transformation journey. We thank you for your continued support as an AusNet Services Securityholder.

Yours sincerely,



Ng Kee Choe
Chairman

for and on behalf of the Board of Directors of AusNet Services



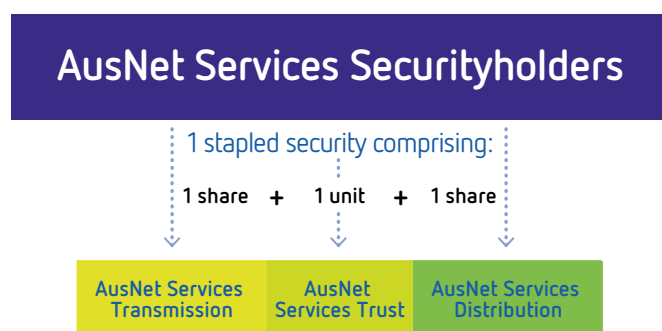
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1 Description of the Proposal

1.1 AusNet Services structure before and after the Proposal

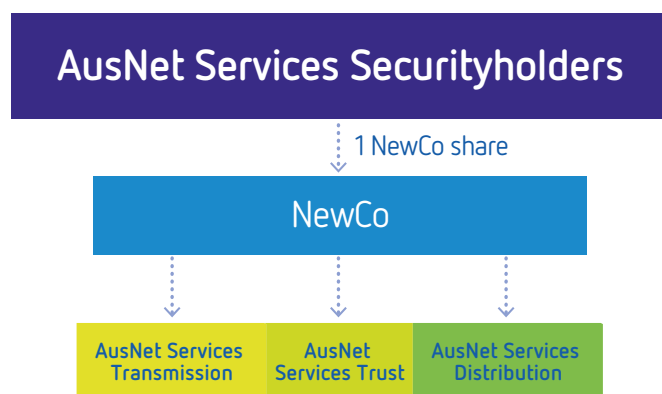
AusNet Services is currently a triple-stapled entity. AusNet Services Securityholders hold AusNet Services Distribution Shares, AusNet Services Transmission Shares and AusNet Services Trust Units, which are stapled together. This means that they can only be dealt with together and effectively represent one single stapled security despite comprising interests in three separate legal entities.

The following diagram shows AusNet Services' current structure:



If the Proposal is implemented, a new entity called AusNet Services Ltd (referred to in this Securityholder Booklet as **NewCo**) will become the new single head entity of the AusNet Services group. Securityholders will hold their interest in AusNet Services through NewCo Shares, rather than through AusNet Services Stapled Securities. Eligible Securityholders will receive one share in NewCo for each AusNet Services Stapled Security they hold on the Record Date.

The structure of AusNet Services after the implementation of the Proposal is shown in the following diagram:



The underlying business and assets of AusNet Services will not change as a result of the Proposal and therefore the economic interest of AusNet Services Securityholders will not change. Eligible Securityholders will hold the same number of NewCo Shares as the number of AusNet Services Stapled Securities they currently hold.

It is proposed that the AusNet Services Trust Loans under which AusNet Services Trust currently lends approximately \$2.8 billion to AusNet Services Distribution and AusNet Services Transmission will be repaid following the implementation of the Proposal. See section 1.8 for details on the effect of the Proposal on AusNet Services.

1.2 Background – status quo and rationale for the Proposal

At the time of its IPO in 2005, AusNet Services (then known as SP AusNet) was established as a triple-stapled structure. Since then, there have been a number of significant considerations which have caused AusNet Services to review its structure, and to consider alternatives. These considerations include:

- > investor feedback has indicated a preference for a simpler, and more readily understood, structure
- > there is an obligation to repay the majority of the AusNet Services Trust Loans in the short term
- > the evolution of AusNet Services' financial profile as a more mature business that has higher profits and franking credits generally available for distribution
- > the settlement of the Division 974 dispute with the ATO, including the agreement to no longer claim a deduction for interest paid under the AusNet Services Trust Loans.

The AusNet Services Board therefore considers that the risks and complexity attaching to AusNet Services' current corporate structure are no longer appropriate and that the new structure described in section 1.1 is the preferred structure. This is because it best achieves the benefits set out in section 1.3, balancing the interests of all Securityholders. The AusNet Services Board considers the Proposal to be the appropriate way forward to enable AusNet Services to:

- > simplify a structure whose complexity is no longer necessary and has become an impediment to positive investor sentiment
- > facilitate the efficient repayment of AusNet Services Trust Loans
- > give AusNet Services greater certainty of tax position in relation to its capital structure.

1.3 Reasons to vote in favour of the Resolutions (benefits)

Simplification and potential broader investor appeal

The Proposal will simplify the corporate structure of AusNet Services. Instead of the current triple-stapled structure, Securityholders will hold their investment in AusNet Services through shares in one entity only (being NewCo).

It is expected that the simpler structure will make an investment in AusNet Services more attractive and easier to understand, particularly for international investors who often are less familiar with stapled structures and investments in trusts. More easily understandable financial statements are also expected to result from the simpler structure. These factors should broaden AusNet Services' investor appeal and improve AusNet Services' access to capital markets.

Reduced administration

It is expected that the simplification of AusNet Services' structure will lead to cost savings and reduced administration, including as a result of the simpler governance and administrative arrangements, less complex financial reporting requirements and the proposed deregistration of AusNet Services Trust as a managed investment scheme once it is wholly owned by NewCo.

Significant management time is currently spent on administering the existing triple-stapled structure. The maintenance of AusNet Services Trust as a registered management investment scheme requires, among other things, an AFSL, a compliance committee in relation to AusNet Services Trust and regulatory capital to be held. The deregistration of AusNet Services Trust following implementation of the Proposal will eliminate the need to comply with those regulatory requirements. AusNet Services is currently in compliance with the financial resources requirements that apply to it under its AFSL.

Greater certainty of tax position in relation to capital structure

As previously disclosed to the market, AusNet Services has recently reached a settlement with the ATO following a specific issue tax audit in relation to the deductibility of interest on the AusNet Services Trust Loans. AusNet Services believes that the development of the Proposal, together with the repayment of the AusNet Services Trust Loans (which will be facilitated by the Proposal), should ensure that there is no further ATO audit activity in relation to AusNet Services' capital structure. This will give AusNet Services greater certainty of its tax position in relation to those matters going forward. However, this does not mean that the ATO is precluded from reviewing or auditing other aspects of AusNet Services' tax position in the future (AusNet Services is not aware of any proposed or pending ATO audit activity).

Facilitates efficient repayment of AusNet Services Trust Loans

The AusNet Services Trust Loans will mature between October 2015 and December 2018. The Proposal enables the repayment of the AusNet Services Trust Loans without adverse consequences for AusNet Services and its Securityholders. Without the Proposal, the consequences of repaying or refinancing the AusNet Services Trust Loans would be as follows:

- > If the AusNet Services Trust Loans were replaced with new inter-entity interest bearing loans, then (under the terms of the settlement deed with the ATO) interest distributions paid by AusNet Services could be subject to dividend withholding tax at rates up to 30% for non-resident unitholders in non-treaty jurisdictions (as opposed to a 10% withholding tax rate which generally applies to interest payments). In addition, AusNet Services has agreed with the ATO that it will not claim a deduction for interest payments made on the AusNet Services Trust Loans or any new or replacement loans on or after 1 April 2014.
- > A failure to repay the AusNet Services Trust Loans upon maturity, or their replacement with new inter-entity non-interest bearing loans, could lead to the re-characterisation of the AusNet Services Trust Loans as equity for tax purposes. This could mean that subsequent loan repayments would be deemed to be a dividend.
- > A repayment of the AusNet Services Trust Loans using external debt funding would adversely affect the credit rating of AusNet Services and materially increase AusNet Services' overall cost of funding.
- > AusNet Services' distribution profile may be adversely affected in the medium to long term.

Improved ability to distribute available franking credits

AusNet Services' ability to distribute available franking credits under its existing structure is limited by the need to pay a large component of its periodic distributions as distributions of AusNet Services Trust interest income which, unlike company dividends, cannot be franked.

The Proposal enables AusNet Services to distribute available franking credits more quickly than under the current structure.

When compared to unfranked dividends of the same gross amount, franked dividends result in higher after-tax distributions for those Securityholders who are able to obtain the benefit of those franking credits.

AusNet Services expects the anticipated distribution of at least 4.18 cents per NewCo Share for the second half of the financial year ending 31 March 2015 will be franked at approximately 60% if the Proposal is implemented, and at approximately 53% if the Proposal is not implemented. The level of franking of distributions in future years will depend on the availability of franking credits and the AusNet Services Board determining to pay franked dividends. The availability of franking credits may be affected by a range of factors, including business performance and the amount of cash tax paid.

1.4 Reasons why you might vote against the Resolutions (risks and disadvantages)

Profile of future distributions may not suit all investors

Distributions paid by AusNet Services have historically comprised a large component of interest income received and distributed by AusNet Services Trust. If the Proposal is implemented, any distributions paid by AusNet Services would be from NewCo and would not include any capital or income distribution from AusNet Services Trust. The AusNet Services Board anticipates that if the Proposal is implemented, NewCo will pay future periodic distributions generally in the form of dividends. The tax treatment for interest income and dividends paid by companies in Australia and overseas jurisdictions differs. This may not suit all investors, particularly where investors are not able to obtain the benefit of any additional franking credits.

No ability to make tax deferred distributions

Historically, a small proportion of distributions to Securityholders has comprised a return of capital from AusNet Services Trust. These amounts may not have been immediately subject to tax in the hands of Securityholders, but did reduce the cost base of the AusNet Services Stapled Securities for capital gains tax purposes, resulting in taxation on a deferred basis upon ultimate disposal of AusNet Services Stapled Securities for those Securityholders who are subject to Australian capital gains tax.

As there will no longer be any distributions from AusNet Services Trust if the Proposal is implemented, it is expected that AusNet Services' periodic distributions will no longer contain a return of capital component.

Transaction costs

The preparation and implementation of the Proposal will result in one-off transaction costs to AusNet Services, including adviser fees and costs associated with calling and holding the Meetings. It is currently estimated that those costs will amount to about \$6 million, the large majority of which will have been incurred by the date of the Meetings.

Cancellation of pre-2005 tax losses

The Proposal leads to the cancellation of \$510 million of tax losses as it is considered that AusNet Services is unable to transfer those losses into the new consolidated tax group under Australian tax law. The effect of any such tax loss cancellation is expected to be fully offset by an estimated increase of \$809.0 million in the tax base of certain assets of AusNet Services as a consequence of the application of the tax consolidation provisions.

See sections 3.3(c) and 3.5(c) for more information about the tax effect of the Proposal on AusNet Services.

Potential stamp duty liability triggered by any further restructure of AusNet Services

The ex gratia relief in relation to potential stamp duty payable on the Proposal obtained by AusNet Services (see section 7.12) was granted on the basis that NewCo, AusNet Services Distribution and AusNet Services Transmission remain part of the same corporate group for a period of at least 3 years from the Implementation Date. Any further restructure of AusNet Services may invalidate the ex gratia relief and trigger a stamp duty liability estimated to be \$40 million. However, it is not expected that any such restructure will occur during the period. Any change in the ownership of NewCo would not invalidate the relief.

1.5 Alternatives considered by the AusNet Services Board

The AusNet Services Board considered a number of alternatives to the Proposal. After careful consideration, the AusNet Services Board determined that the Proposal is the preferred option in the interests of AusNet Services Securityholders going forward.

Alternatives considered by the AusNet Services Board include:

- > maintaining the current structure
- > replacing the current AusNet Services Stapled Securities with different stapled securities including debt and equity securities.

However, it was determined that no alternative would be able to achieve all of the benefits that are expected to be obtained as a result of the Proposal (see section 1.3). In particular, the potential adverse funding and credit metrics impacts of repaying the AusNet Services Trust Loans under the current structure and the desire for greater certainty and less complexity led the AusNet Services Board to search for a different structure. In addition, it was determined that an alternative stapled structure involving both debt and equity securities could potentially cause a significant downgrade of the credit ratings of AusNet Services.

Prior to entering into the settlement with the ATO in relation to the Division 974 audit, the AusNet Services Board considered in particular whether it should maintain the current structure in light of an announced review of the relevant tax rules by the Board of Taxation. However, AusNet Services considered the negotiated outcome of the settlement to be prudent and optimal in the circumstances given legislative uncertainty and the ATO's publicly stated views on this issue. The Government's response to the Board of Taxation review, and the extent and timeframe of any legislative action by the Government, were not known at the time of the settlement and are not known at the date of issuance of this Securityholder Booklet.

1.6 AusNet Services Directors' recommendation

The AusNet Services Directors believe for the reasons set out in section 1.3 that the benefits of the Proposal outweigh its disadvantages and risks. In the AusNet Services Directors' unanimous opinion, the Proposal is in the best interests of AusNet Services Securityholders. The AusNet Services Directors believe that if the Proposal is implemented, Securityholders will be better off than if the Proposal does not occur.

Each AusNet Services Director recommends that AusNet Services Securityholders vote in favour of each Resolution proposed for consideration at the Meetings. Each AusNet Services Director intends to vote any AusNet Services Stapled Securities held or controlled by them in favour of each of the Resolutions.

1.7 Independent Expert's Report

The Independent Expert appointed to review the Proposal, Lonergan Edwards, has concluded that the Proposal is in the best interests of AusNet Services Securityholders.

The factors taken into account in reaching this conclusion, and an assessment of the advantages and disadvantages, including risks, of the Proposal, are set out in the Independent Expert's Report at Annexure A. The AusNet Services Directors encourage you to read the Independent Expert's Report.

1.8 Effect of the Proposal on AusNet Services

If the Proposal is implemented, AusNet Services will form a single consolidated group for Australian income tax purposes under NewCo. As a result of consolidation, NewCo and its wholly owned subsidiaries will be taxed as a single company.

AusNet Services will no longer be able to pass through any interest income generated by AusNet Services Trust through to Securityholders. AusNet Services will pay Australian company tax (currently at a rate of 30%) on all of the group's taxable income.

The AusNet Services Trust Loans under which AusNet Services Trust currently lends approximately \$2.8 billion to AusNet Services Distribution and AusNet Services Transmission will be repaid following the implementation of the Proposal. Because the current AusNet Services entities will all be part of the same consolidated group for Australian income tax purposes following the restructure, the repayment of the AusNet Services Trust Loans will be tax neutral.

See sections 3.3(c) and 3.5(c) for more information about the tax effect of the Proposal on AusNet Services.

The board of directors of NewCo will be the same as the current AusNet Services Board. Whilst NewCo is a new entity, the AusNet Services Directors will continue to retire by rotation on the same schedule that would have applied without the Proposal.

There will no longer be a registered managed investment scheme as part of AusNet Services' corporate structure, eliminating the need to maintain an AFSL and compliance committee. This will simplify AusNet Services' governance and administration as the regime that will apply to AusNet Services going forward will be that of a listed company only, while elements such as regulation by ASIC as a financial services licensee and the duties of a responsible entity and its officers and employees that apply to registered managed investment schemes will cease to apply to AusNet Services.

As a consequence of Singapore regulatory requirements imposed at the time of its IPO, AusNet Services is currently required to obtain Securityholder approval for any issue of units in AusNet Services Trust. To comply with the requirement, AusNet Services has at each of its annual general meetings sought, and Securityholders have given, approval of any issues of AusNet Services Stapled Securities during the subsequent year. The regulatory requirement is only relevant to a trust and therefore will no longer apply if NewCo becomes the single head entity of AusNet Services. However, in order to maintain the current practice, the NewCo Constitution provides that AusNet Services must not issue any NewCo Shares or other equity interests without having obtained Securityholder approval no more than 18 months before the issue. AusNet Services will seek approval to issue NewCo Shares at its next AGM (scheduled for 23 July 2015) on the same terms as the approvals previously sought. In the period between the implementation of the Proposal and the AGM, NewCo will not issue any equity interests without Securityholder approval other than under a DRP, employee equity scheme or any pro-rata issue.

AusNet Services expects that it will (absent other significant negative events) maintain its current credit ratings following the Proposal. The Proposal has no impact on AusNet Services' current external funding arrangements and no lender approval or other third party consent under any material contract is required.

AusNet Services will retain its current ASX code "AST".

See section 3 for information about the financial impact of the Proposal.

1.9 Consequences of the Proposal not proceeding

If the Proposal does not proceed, AusNet Services' triple-stapled structure will remain as it is and Securityholders will continue to hold AusNet Services Stapled Securities.

The AusNet Services Trust Loans will mature between October 2015 and December 2018. Without the Proposal, the repayment or refinancing the AusNet Services Trust Loans would likely have material adverse consequences for AusNet Services and its Securityholders. These consequences are further described in section 1.3 (under the heading "*Facilitates efficient repayment of AusNet Services Trust Loans*").

1.10 Effect of the Proposal for AusNet Services Securityholders

All Eligible Securityholders will have their current holding of AusNet Services Stapled Securities exchanged for an equal number of NewCo Shares. Ineligible Foreign Securityholders will have their AusNet Services Stapled Securities transferred to the Sale Nominee and will receive an amount of cash – see section 1.14 for more details.

The underlying business and assets of AusNet Services will not change as a result of the Proposal and therefore the economic interest of AusNet Services Securityholders will not change.

It is expected that periodic AusNet Services distributions will be paid as dividends by NewCo after the Proposal is implemented. Securityholders will no longer receive and be assessed on interest income of AusNet Services Trust and will not be subject to flow-through taxation on any other income earned by AusNet Services Trust. The tax treatment of distributions in the hands of AusNet Securityholders will change as a result – see sections 4 and 5 for more details. See section 1.11 for the impact of these changes on the AusNet Services distribution for the second half of the financial year ending 31 March 2015.

Rollover relief should be available to Securityholders that hold the AusNet Services Stapled Securities on capital account for tax purposes in respect of the NewCo Shares issued under the Proposal, which means that any capital gain occurring under the steps of the Proposal should not trigger a capital gains tax liability. AusNet Services has applied for a class ruling from the ATO on behalf of Australian tax resident Securityholders to confirm the income tax treatment of the Proposal. The class ruling will only apply to Securityholders that hold the AusNet Services Stapled Securities on capital account for tax purposes.

Securityholders will not have to make any cash payment in connection with the Proposal. The Proposal does not involve the payment of a distribution. No stamp duty or brokerage will be payable on the exchange of AusNet Services Stapled Securities for NewCo Shares.

Securityholders should be aware that, pursuant to the Schemes each Securityholder on the Record Date will be deemed to have warranted to AusNet Services and, in the case of Ineligible Foreign Securityholders, to the Sale Nominee that their AusNet Services Stapled Securities are not subject to any encumbrances or interests of third parties and that they have full power and capacity to sell and transfer such securities.

1.11 Impact of the Proposal on the next AusNet Services distribution

AusNet Services expects to pay a distribution of at least 4.18 cents per security for the second half of the financial year ending 31 March 2015. The expected distribution payment date is 26 June 2015.

If the Proposal is implemented in accordance with the timetable currently contemplated (see page 4), this distribution is expected to be paid as a dividend of NewCo because implementation of the Proposal is expected to occur before the distribution payment date. It is expected that the dividend will be franked at approximately 60%. The record date for the distribution is expected to be 11 June 2015, the same as the Record Date for the Proposal. This means that all AusNet Services Securityholders who are eligible to Participate in the Proposal will also be entitled to receive the distribution.

Ineligible Foreign Securityholders who are recorded on the Register on the Record Date will not receive the distribution directly. The distribution will instead be paid to the Sale Nominee who will remit the payment to Ineligible Foreign Securityholders under the Sale Facility (see section 1.14). AusNet Services will reimburse the Sale Nominee for any tax payable in relation to the dividend.

If the Proposal does not proceed, or if the Proposal is implemented after the expected distribution payment date of 26 June 2015, the distribution for the second half of the financial year ending 31 March 2015 is expected to be paid in the same way as has historically been the case as a distribution by the stapled entities that currently comprise AusNet Services. In that case, it is expected that the distribution will be franked at approximately 53%. The record date for the distribution would be the same (expected to be 11 June 2015) and all Securityholders on that date (including Securityholders who would otherwise be Ineligible Foreign Securityholders) would be entitled to receive the distribution.

It is expected that AusNet Services' DRP will apply to the next distribution in the usual way, irrespective of whether the distribution is paid as a NewCo dividend or a distribution on AusNet Services Stapled Securities. Elections made by Securityholders in relation to the current DRP will be deemed to constitute equivalent elections in relation to the NewCo DRP (see section 7.14). Further details on the operation of the DRP in connection with the next distribution will be provided to the market at a later date.

1.12 Implementation steps

If the Proposal is approved, NewCo will become the new head entity of AusNet Services by acquiring all of the AusNet Services Stapled Securities from AusNet Services Securityholders in exchange for the issue of NewCo Shares to those AusNet Services Securityholders.

Immediately following the implementation of the Schemes, the number of NewCo Shares held by Eligible Securityholders will be consolidated so that Eligible Securityholders will hold one NewCo Share for each AusNet Services Stapled Security they held before.

See section 6.1 for details about how the Proposal will be implemented.

1.13 Conditions

The Proposal is subject to a number of conditions precedent, including the approval by Securityholders and the Court. For details on those conditions and their status at the date of this Securityholder Booklet, see section 6.2.

1.14 Foreign Securityholders

A Foreign Securityholder is any AusNet Services Securityholder whose address is, or who is a citizen or resident of, a place outside of Australia and its external territories or who acts on behalf of such a person.

Foreign Securityholders with a registered address in the following jurisdictions and who satisfy any applicable conditions below are Eligible Foreign Securityholders who can Participate in the Proposal:

- > New Zealand
- > Singapore
- > Hong Kong – “professional investors” (as described in section 7.15) (other investors are also eligible provided that there are not more than 50 persons in total who Participate in the Proposal in this jurisdiction)
- > Malaysia – provided the Foreign Securityholder is an investor who falls within one or more exemptions described in section 7.15
- > Japan
- > United States
- > Canada
- > United Kingdom – the Foreign Securityholder must be an investor who falls within one or more exemptions described in section 7.15. In addition, the Foreign Securityholder must be a Qualified Investor (investors who fall within one or more exemptions described in section 7.15 but who are not Qualified Investors may also Participate provided that there are fewer than 150 persons who are not Qualified Investors Participating in the Proposal in this jurisdiction)
- > Switzerland – provided the Foreign Securityholder is an investor who falls within one or more exemptions described in section 7.15 and provided that there are fewer than 100 persons who Participate in the Proposal in this jurisdiction
- > Norway – “professional investors” (as described in section 7.15) (other investors are also eligible provided that there are fewer than 150 persons who are not “professional investors” Participating in the Proposal in this jurisdiction)
- > Germany – Qualified Investors (other investors are also eligible provided that there are fewer than 150 persons who are not Qualified Investors Participating in the Proposal in this jurisdiction).
- > any other jurisdiction where AusNet Services determines it is lawful and not unduly onerous for the relevant Foreign Securityholder to receive NewCo Shares under the Proposal.

See section 7.15 for details on the categories of Eligible Foreign Securityholders and applicable provisions of foreign securities laws.

All other Foreign Securityholders will be Ineligible Foreign Securityholders and will not receive NewCo Shares under the Proposal. Rather, their existing holding of AusNet Services Stapled Securities will be transferred to the Sale Nominee who will sell the NewCo Shares it receives under the Proposal and remit the proceeds, together with an amount representing the AusNet Services distribution for the second half of the financial year ending 31 March 2015 (see section 1.11), to Ineligible Foreign Securityholders under the terms of the Sale Facility (see section 6.3). It is not expected that more than 0.5% of AusNet Services Securityholders will be Ineligible Foreign Securityholders.

The reason for the exclusion of Ineligible Foreign Securityholders from Participation in the Proposal is that restrictions in certain foreign countries may make it impractical or unlawful to offer or receive securities in those countries.

See also section 6.4 for details on how CDP Account Holders’ eligibility is assessed.

1.15 Overview of Securityholder approvals sought

There are a number of Resolutions that need to be passed at the Meetings for the Proposal to proceed. All Resolutions are interconditional, which means that if one Resolution is not passed, the Proposal will not proceed. Securityholder approval is required to:

- > approve the Company Schemes (see section 6.5)
- > amend the AusNet Services Trust Constitution (see section 6.6)
- > destaple the AusNet Services Stapled Securities (see section 6.7)
- > approve the acquisition by NewCo of all of the AusNet Services Trust Units for the purposes of item 7 of section 611 of the Corporations Act (see section 6.8).

Different approval thresholds apply to the Resolutions. Some of the Resolutions require the approval of at least 75% of the votes cast and of a majority in number of Securityholders voting (see section 6.9). If the Resolutions are passed, and the other conditions to the Proposal are satisfied (including the approval of the Court), each Eligible Securityholder will Participate in the Proposal, regardless of whether they voted in favour of the Resolutions or whether they voted at all.

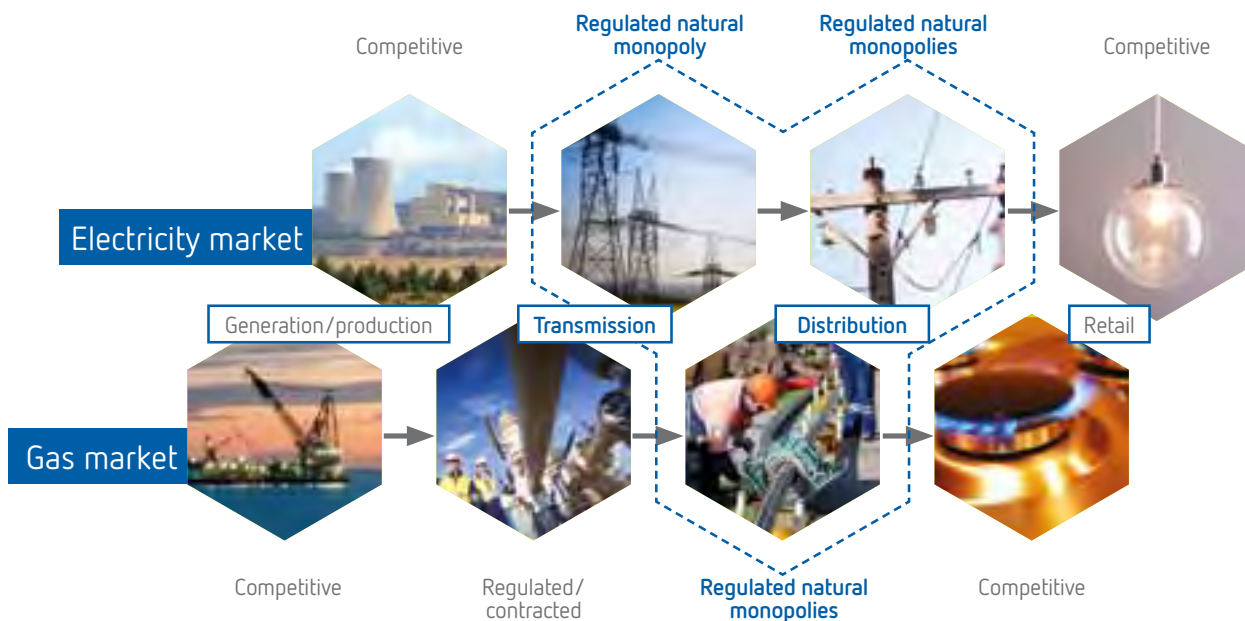
2 Description of AusNet Services

2.1 About AusNet Services' Business Model and Strategy

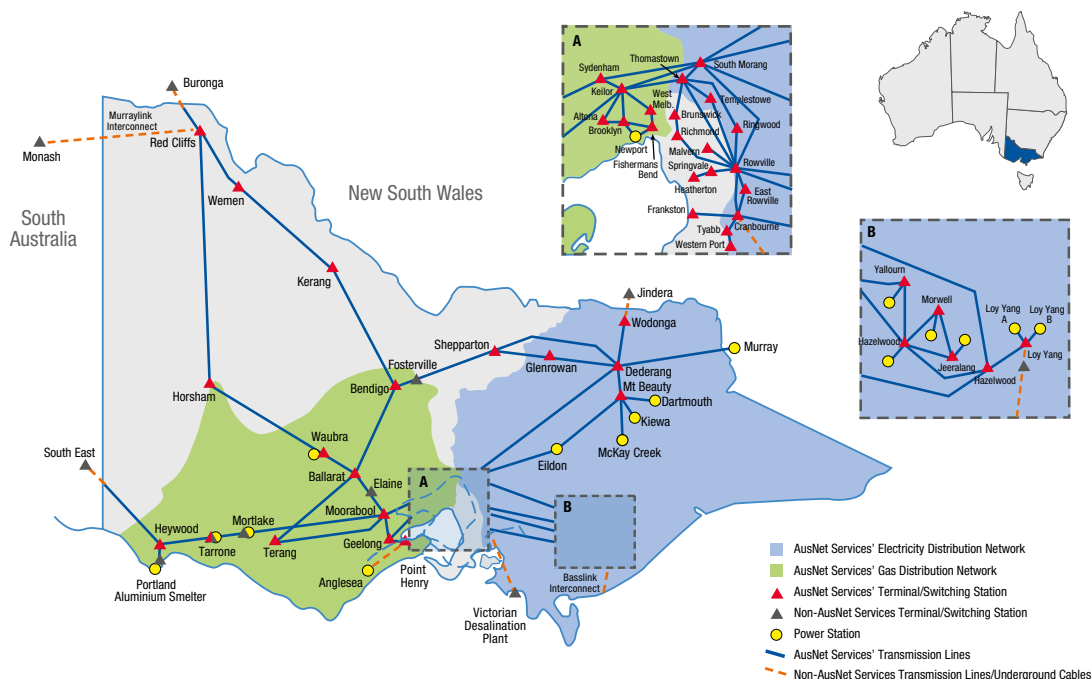
AusNet Services is a diversified energy infrastructure business that owns and operates Victoria's primary regulated electricity transmission network, as well as an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria. AusNet Services has also established an unregulated business, Select Solutions, which provides a number of commercial services to help customers manage their energy, water and environmental needs.

The triple-stapled entity that currently comprises AusNet Services is listed on ASX and SGX-ST with a market capitalisation on the ASX of approximately \$4.92 billion as at 20 March 2015. AusNet Services has more than 2,300 employees.

The following diagram shows the industry segments in which AusNet Services' regulated businesses operate.



AusNet Services' regulated assets are all subject to regular regulatory determinations in relation to the revenue able to be charged for core services. The regulatory pricing periods are generally 5 years for gas and electricity distribution; however, the current regulatory period for electricity transmission is 3 years. Refer to section 2.3 for further information on the regulatory environment in which AusNet Services operates. The following diagram provides an indication of the location of AusNet Services' electricity transmission and distribution networks and gas distribution network.



AusNet Services' purpose is *'To provide our customers with superior network and energy solutions'*; which is underpinned by eight 5-year strategic objectives as set out below.

Safety	Industry leadership in safety performance	AusNet Services' leaders are responsible for and understand how to lead safety, encouraging its people to work safely and to create safer work environments.
People	High performing leadership, capability and culture	AusNet Services continues to develop the right culture, skills, talent and labour productivity to support a sustainable and high performing business.
Customer	A highly developed customer service capability	AusNet Services continues to focus on customers through meaningful, useful and actionable engagement. The business leverages customer knowledge, experience and service levels to deliver outcomes that align with the needs and expectations of customers, supported through regulatory advocacy.
Financial	Diversified and accretive growth	Approximately 88% of AusNet Services' revenue comes from regulated sources, and while AusNet Services remains focused on the continued growth in the regulated networks, diversified growth is also targeted through: > unregulated infrastructure – the development of unregulated transmission connections and other infrastructure > Select Solutions – the continued expansion of specialist utility-related, transportation and telecommunications solutions to existing and new customers. > energy solutions – seeking to develop products and services related to energy use, energy storage, energy efficiency and other niche services in response to changing customer behaviours. AusNet Services continues to assess acquisition opportunities and other corporate transactions as they arise, along with pursuing opportunities for further organic growth in existing and related businesses.
	Sustainable earnings and securityholder value growth	AusNet Services aims to improve its year-on-year financial performance.
Business & Asset	An efficient business model	AusNet Services' operations aim to achieve excellence in both energy delivery and managing customer services, through the implementation of processes and systems which produce high quality data, efficiency, effectiveness, controllability and management capability. This objective is being delivered through a company-wide program of Business Operational Excellence, of which the most significant component is an enterprise-wide change program enabled by the replacement of multiple asset management and resource planning platforms with a single, fully integrated system.
	Safe, resilient and reliable networks	In addition to network safety and reliability across three regulated networks, AusNet Services continues to enhance and optimise its inspection, maintenance and replacement plans through advanced modelling techniques and fully integrated systems.
	Industry leadership and advocacy role in regulatory development	AusNet Services aims to be a leader in regulatory development for the energy industry, thereby enhancing business value through constructive engagement with key policy makers.

2.2 Business of AusNet Services

AusNet Services' total combined revenues were \$971.3 million for the half year ended 30 September 2014, of which approximately 88% was regulated. AusNet Services' total combined revenues were \$1,799.4 million for the financial year ended 31 March 2014.

Electricity transmission network

AusNet Services is the owner and manager of Victoria's primary regulated electricity transmission network. The Victorian transmission 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 South Australia, New South Wales and Tasmania.

AusNet Services' electricity transmission network comprises the primary Victorian regulated transmission network, other than the Murraylink Interconnection. AusNet Services' electricity transmission network consists of approximately 6,500 kilometres of transmission lines as at 31 March 2014 and carries electricity at extra-high voltages from predominantly coal-fired power stations principally located in the Gippsland region of eastern Victoria and some renewable generation to terminal stations around Victoria, where the voltage is lowered for the local distribution companies to deliver electricity to homes and businesses.

AusNet Services is responsible for replacement of assets on its transmission network. The AEMO, generators and distribution customers plan and direct network augmentation, which AusNet Services as the incumbent transmission network service provider provides under its regulated prescribed obligation. New transmission facilities and services are open to contestability, which allows other transmission companies to competitively bid for these new projects.

AusNet Services' electricity transmission network is regulated by the AER. AusNet Services levies regulated transmission entry charges for connection to generator owners, exit charges for connection to distributors and customers taking supply at transmission voltages and common service and shared transmission service to the AEMO. AusNet Services owns the transmission network and the right to provide transmission services throughout Victoria as outlined in its electricity transmission licence. Electricity transmission network charges derived using the building block approach are spread over the pre-set regulatory period to minimise any price volatility for users. Electricity transmission revenue is recovered as a fixed amount and is not affected by usage volume.

While AusNet Services remains focused on the continued growth in the regulated networks, diversified growth is also targeted through various negotiated and competitive connections and other infrastructure expansions. Recent developments contributing to revenue growth includes the construction of a new terminal station for AGL's wind farm near Macarthur, the installation of a third 500/375kV transformer at Heywood Terminal Station and the commencement of the agreements to operate and maintain the underground transmission line supplying electricity to the Victorian Desalination Plant in Wonthaggi.

Electricity distribution network

AusNet Services owns the electricity distribution network and has rights to distribute or supply electricity within its licensed distribution area and is the only electricity distribution business licensed to operate in this area. AusNet Services charges the same approved tariffs for electricity network usage regardless of which retailer sells the electricity to a customer in AusNet Services' electricity distribution area.

As at 31 March 2014, AusNet Services distributed electricity to approximately 670,000 customers. AusNet Services' electricity distribution network spans over 80,000 square kilometres, covering eastern metropolitan Melbourne and eastern Victoria. This distribution network transports electricity from AusNet Services' high-voltage transmission grid to end users' points of supply with approximately 50,000 kilometres of lines.

AusNet Services' electricity distribution network is regulated by the AER. AusNet Services levies regulated distribution use of system charges ("DuoS") on retailers whose customers use AusNet Services' network.

Advanced Metering Infrastructure

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 February 2015, AusNet Services has installed approximately 700,000 meters, out of a total fleet of 710,000. 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. See section 2.4(a) for information about the status of the AMI program.

Gas distribution network

AusNet Services owns the gas distribution assets and the right to distribute gas within its distribution area. As at 31 March 2014, AusNet Services distributed gas to approximately 633,000 customers located in its distribution area in central and western Victoria. AusNet Services' gas distribution area spans over 60,000 square kilometres of central and western Victoria and is connected to its gas distribution network, which consists of approximately 10,500 kilometres of distribution mains and 183 kilometres of transmission pipe. The gas distribution network spans some of the significant areas of expected population growth in Melbourne and its surrounding areas.

AusNet Services levies regulated DuoS charges to retailers and some large distribution customers that use AusNet Services' network. AusNet Services applies the same rates and charges for the same services, which is dependent on region and customer type, regardless of the retailer chosen by the consumer in its gas distribution area.

Select Solutions business

Select Solutions is a division of AusNet Services that provides services in the unregulated energy and utility markets, including specialist utility services to AusNet Services. Select Solutions is a leading provider of specialist services for utilities, government, energy and water retailers, including industrial and commercial type customers. These services include network and contestable metering, vegetation management, asset inspection and technical services (such as chemical testing and asset condition monitoring), as well as the leasing of communications infrastructure and space on AusNet Services sites and assets.

In February 2014, AusNet Services acquired Geomatic Technologies ("GT"), a provider of information technology integrated solutions and services that leverage advanced mobile and spatial technologies. GT's portfolio includes solutions and services for field mobile computing, asset capture and inspection, web mapping as well as ICT managed services. The integration of GT will expand the service offering of the Select Solutions business and contribute to the growth of the unregulated business.

2.3 Regulatory overview

a) Summary of regulatory oversight of AusNet Services' businesses

The principal legislation and regulatory body responsible for economic regulation of the existing AusNet Services businesses are set out below. The assets in the table below are all subject to regular regulatory determinations in relation to the revenue able to be charged for core services.

Sector	Primary legislation	Economic regulator	Next regulatory reset	RAB (\$ billion) ¹	WACC
Victorian electricity transmission	> <i>Electricity Industry Act 2000</i> (Vic)	AER	1 April 2017	2.92	7.87%
	> <i>National Electricity (Victoria) Act 2005</i> (Vic)				
	> National Electricity Law				
	> National Electricity Rules				
Victorian electricity distribution	> <i>Electricity Industry Act 2000</i> (Vic)	AER	January 2016	3.05	9.75%
	> <i>National Electricity (Victoria) Act 2005</i> (Vic)				
	> National Electricity Law				
	> National Electricity Rules				
AMI	> <i>Essential Services Commission Act 2001</i> (Vic)	AER	January 2016	0.34	7.57%
	> <i>Electricity Industry Act 2000</i> (Vic)				
	> Various Order in Councils S200, S286, S314, G4, G14, G42 and G51				
	> National Gas Law				
Victorian gas distribution	> <i>Gas Industry Act 2001</i> (Vic)	AER	January 2018	1.39	7.07%
	> <i>Essential Services Commission Act 2001</i> (Vic)				
	> <i>National Gas (Victoria) Act 2008</i> (Vic)				
	> National Gas Rules				

1. Estimate as at 30 September 2014. Includes the value of network assets that are currently unregulated but will become regulated at the next price review.

b) Regulated investments

Almost all shared use electricity network infrastructure in Australia is regulated and although the arrangements in the electricity sector have provided for both merchant and regulated transmission investments since inception, almost all investments made are regulated, or have been converted to regulated investments. In Victoria, separation of responsibility for transmission network planning and ownership provides for the contestable delivery of augmented transmission network services.

The arrangements for the gas sector similarly allow for non-regulated investment (regulated pipelines are referred to as "covered"). However, unlike the electricity sector, there has been a trend towards unregulated services for gas transmission. A number of major pipelines have been subject to decisions to impose or revoke coverage after review by the National Competition Council, which makes decisions as to whether such pipelines operate in a competitive environment.

c) Price regulation

The approach to price regulation is similar for networks in the electricity and gas sectors (although for gas, this is a component of the approved access arrangement, rather than a stand alone determination). This is commonly referred to as an "incentive-based" regulatory regime, where price caps or revenue caps are set for a period of typically 5 years and the network business is able to retain some of the benefits of efficiency gains arising from out-performance of the cost assumptions underlying the price/revenue cap.

The incentive for AusNet Services' regulated businesses is to reduce costs below the cost assumptions in the applicable revenue or price cap. In association with this incentive to reduce costs, the regime includes monitoring of the business against target levels of service, and in some cases the inclusion of financial incentives to meet these target levels.

The revenue requirement for the regulated business is calculated according to a building block approach which provides for a target revenue stream that is designed to cover ongoing operations and maintenance costs, depreciation and a return on assets, calculated by reference to the distributor's WACC. Network charges derived using the building block approach are averaged over the 5-year regulatory period to minimise any price volatility for end customers. Electricity transmission revenue is recovered as a fixed amount and is not affected by usage volume. For electricity and gas distribution businesses, the revenue requirement is generally converted to a price cap, with actual revenue subject to the volume distributed. The next regulatory period 2016–2020 for AusNet Services electricity distribution network will be regulated by a revenue cap and not a price cap.

d) Technical standards

In addition, energy sector businesses are subject to technical regulation, which is independent of the economic regulatory regime. Technical regulation is the domain of separate specialist regulatory bodies and focuses on the safe operation of the network. There are regulatory bodies responsible for technical regulation of electricity metering services and separate bodies responsible for handling consumer complaints and related issues in the energy sector. For example, Energy Safe Victoria is responsible for technical regulation of electricity and gas infrastructure in Victoria.

e) Regulatory reforms

The regulatory framework within which AusNet Services operates continues to evolve. Generally speaking, regulators have been seeking to expand incentive and penalty regimes focused on network performance. Regulators are also seeking more information regarding operating and capital costs and are becoming more willing to make their own assessments about the requirements of regulated businesses in respect of matters such as asset augmentation, replacement, maintenance and operation.

Service-related incentive arrangements have been assuming increased prominence in regulatory development, for both electricity transmission and distribution. The AER has determined a market impact incentive scheme for transmission businesses, which AusNet Services has successfully applied since August 2011. In its last electricity distribution price reset, the AER enhanced the power of its service incentive regime.

In 2012, an f-factor scheme for Victorian electricity distributors started which incentivises distributors to reduce the risk of fire starts and to reduce the risk of loss or damage caused by fire starts. Distributors are either rewarded or penalised at the incentive rate of A\$25,000 per fire for performing better or worse than their respective fire start targets.

The Council of Australian Governments' Ministerial Council on Energy developed a national framework for energy distribution and retail regulation. These reforms will introduce a single national framework for energy distribution networks and retail markets regulated by the AER. The changes will substantially complete the transfer of distribution network regulation that currently remains with state jurisdictions to the national framework, and provide a national framework for regulating the sale and delivery of energy (electricity and gas) by retailers and distributors. The changes to be introduced by the National Energy Retail Law deal primarily with:

- > the retailer-customer relationship and associated rights, obligations and consumer protection measures
- > distributor interactions with customers and retailers and associated rights, obligations and consumer protection measures.

The Parliament of Victoria is yet to pass legislation to apply the National Energy Retail Law as a law of Victoria. Once the National Energy Retail Law does apply in Victoria, AusNet Services does not expect to face any material adverse effects.

A number of other relevant regulatory reviews were recently completed, including but not limited to:

- > Review of the Limited Merits Review Regime – following a review of the regime by the SCER, which concluded that the regime had not delivered on the original policy intentions, the South Australian Parliament, as the lead legislator for the national energy market reforms, has passed amending legislation to change the national energy laws to place greater emphasis on decisions that contribute to the long term interests of consumers
- > Transmission Frameworks Review – this review has been completed and the final report released and delivered to the SCER for policy response
- > Demand Side Participation Review – the SCER has agreed to progress the recommendations from the AEMC's final report. Consequently the SCER has initiated a rule change for electricity distribution network pricing arrangements, to establish a 'long run marginal cost' basis for network pricing.

The Australian Government has also initiated a new Energy White Paper. The Australian Government has prioritised the development of the Energy White Paper to ensure industry and consumers can have certainty and confidence in government policy going forward. An Energy Green Paper has been produced and submissions received.

The AER and Energy Users Rule Change Committee have applied to the AEMC for changes to the National Electricity Rules and National Gas Rules, which could make it more difficult for AusNet Services to gain regulatory approval for its required operating and capital expenditure and its WACC (see "*AER changes to National Electricity Rules and National Gas Rules*" in Section 2.4(a) for more detail).

2.4 Risks associated with AusNet Services

The following key risks may have a negative impact on AusNet Services' business. These are risk factors that apply to an investment in AusNet Services generally. For risks in relation to the Proposal, see section 1.4.

a) Regulatory risks

The energy industry in Australia is highly regulated, which limits AusNet Services' flexibility and may adversely affect its financial performance

The energy industry in Australia is highly regulated. The regulated component of AusNet Services' revenues (approximately 88% of AusNet Services' revenues for the year ended 31 March 2014 were regulated) will be subject to periodic pricing resets by the AER, where revenue or prices will be determined for each of the networks for the specified regulatory period. AusNet Services has no ability or flexibility to charge more for regulated services than is provided for under the relevant AER determination (for electricity transmission and distribution), or the approved access arrangement (in respect of gas distribution), without regulatory approval. Regulatory control periods are generally 5 years, although with respect to the latest transmission revenue determination, the applicable pricing period is 3 years (with the next control period expected to be at least 5 years). The upcoming regulatory reset dates for AusNet Services' electricity transmission network, electricity distribution network and gas distribution network are 1 April 2017, 1 January 2016 and 1 January 2018, respectively. Regulated charges do not necessarily reflect actual or projected operating costs, capital expenditure or the costs of capital. If the regulated charges set by the AER are lower than AusNet Services' costs, this may adversely affect the financial performance and position of AusNet Services.

AusNet Services maintains a dedicated regulatory team to manage its regulatory environment and price review processes.

AusNet Services is exposed to cost changes within a regulatory control period

AusNet Services is exposed to cost changes within a regulatory control period and bears the risk of any shortfall in allowances for costs provided by regulatory determinations. Costs can change materially within a regulatory control period due to, among other things, changes in the costs of labour, equipment or capital inputs (including the cost of finance). In some circumstances, where costs are outside AusNet Services' control, the regulatory regime offers cost pass-through protection. However, this is generally limited to costs incurred as a result of a change of exogenous circumstances (e.g. change in law, natural disaster or changes in occupational health and safety or environmental obligations) and the change in costs is often required to satisfy a materiality threshold. It is also possible to re-open a price determination, but this can only occur where the determination is affected by a material error or deficiency. As such, AusNet Services faces exposure to changes in its costs which could adversely affect its financial performance and position.

There is a risk that AusNet Services may not fully recover its costs under the AMI program

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.

Future expenditure will be required to stabilise the existing AMI systems, to complete network coverage and complete the AMI program. An update on the expected amount of future expenditure will be provided at the time of the release of AusNet Services' results for the financial year 2015 (expected on 14 May 2015).

AusNet Services estimates that the total amount subject to future regulatory approval for AMI after completion of the remediation program, compared to the current AER approved budget, is \$281 million. In addition to this amount, \$70.5 million excess expenditure was incurred in calendar year 2013. AusNet Services' Excess Expenditure Application seeking approval of this amount was accepted by the AER in respect of \$47.8 million and rejected in respect of the remaining \$22.7 million on 12 December 2014.

AusNet Services is planning 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 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 ("**Best Endeavours Audit**"). 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. The final determination of the number of premises who did not have a communicating meter on that date is not expected to be available until May 2015. Based on the current expectations and further clarification from the Victorian Government, this rebate is required to be paid in full by 30 June 2015. As a result, a provision has been raised for \$37.5 million of rebates that are required to be paid.

AusNet Services needs to be licensed and accredited in order to operate, and its licences and accreditations could be revoked

AusNet Services requires licences and accreditations in order to operate its distribution and transmission businesses. The ESC can revoke AusNet Services' licences if AusNet Services does not comply with an enforcement order served by the ESC or an undertaking given to the ESC and the ESC considers that revocation is necessary or desirable in order to achieve the relevant gas or electricity policy objectives.

The regulatory regime applying to the electricity and gas industries in southern and eastern Australia is currently being reformed through the National Energy Customer Framework ("**NECF**"). As a part of the NECF, regulatory functions of the ESC will transfer to the AER. An implementation date has not been announced for Victoria. This reform is not expected to amend AusNet Services' operating authority or arrangements in any way. However, any revocation of a licence or accreditation by the ESC or, in the future, by the AER could adversely affect AusNet Services' financial performance and position.

AusNet Services may lose its electricity distribution licence if there is a persistent and serious breach of the AMI CROIC

It is a condition of AusNet Services' electricity distribution licence that it complies with the CROIC in respect of the AMI program.

One of the ESC's conclusions of the Best Endeavours Audit was 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.

If the ESC considered AusNet Services to be in breach of its distribution licence obligations, financial penalties could be applied. Further, if the ESC considered the breach sufficiently serious, it could lead to a loss of AusNet Services' electricity distribution licence.

Any such actions by the ESC could adversely affect AusNet Services' financial performance and position.

Changes in law and government policy could adversely affect AusNet Services

Changes in the structure and regulation of the energy industry in Australia could materially adversely affect AusNet Services and its business. AusNet Services is also directly or indirectly subject to a range of regulatory issues arising from environmental laws and regulations, occupational health and safety requirements and technical and safety standards. AusNet Services' business is also subject to general regulation, including in relation to land use and land access, native title and cultural heritage. Electricity and gas businesses are also subject to a range of changing technical regulation at both Federal and State levels. Changes to government policy, law or regulations (including to the AMI CROIC), or the introduction of new regulatory regimes (for example, in relation to climate change), may lead to an increase in operational costs and may have a material adverse effect on AusNet Services and its businesses.

AusNet Services is required to comply with technical, safety and environmental standards applicable to its transmission and distribution networks and its compliance costs may increase

Legislation and associated regulations prescribe certain standards for the operation and maintenance of AusNet Services' networks. AusNet Services has accepted the Electricity Safety Management Scheme ("ESM's") for its electricity transmission and distribution networks, and a safety case for the gas distribution network, which governs, where applicable, its compliance with these standards. The ESM's and gas safety case do not prevent claims against AusNet Services. Failure to comply with operation and maintenance standards could lead to safety issues, service disruptions and adverse publicity, and could otherwise result in a material adverse effect on AusNet Services' business.

Various materials and substances that are hazardous or environmentally sensitive, such as oil, sulphur hexafluoride gas (SF₆), polychlorinated biphenyls and asbestos, have been used or are contained in the facilities and sites involved in AusNet Services' current and historical businesses. For example, AusNet Services' networks include numerous transformers that may leak oil due to mechanical failures, automobile accidents and other factors. In the event such leaks and spills escape containment and contaminate ground or surface water, this may lead to expensive clean-up and remediation of affected sites, government sanctions may be imposed and AusNet Services' reputation may be damaged. AusNet Services is currently funding the clean-up of former gas works sites. Based on AusNet Services' best estimates as at 30 September 2014, a provision of \$27.4 million has been made for these remediation works.

AusNet Services must comply with environmental laws and regulations, and obtain and maintain numerous governmental permits. If it fails to comply with these environmental requirements, it could be subject to civil or criminal liability and fines, which could be substantial.

In addition, existing environmental regulations could be revised or reinterpreted, new laws and regulations could be adopted or become applicable to AusNet Services, and future changes in environmental laws and regulations could occur. The occurrence of any of these events could materially adversely affect AusNet Services' results of operations and financial condition.

AER changes to National Electricity Rules and National Gas Rules

The AEMC has completed a rules change process in respect of the National Electricity Rules provisions on WACC and other aspects of the economic regulatory framework.

The rule changes, as made, among other things establish a new rate of return framework that is common to electricity distribution, electricity transmission and gas, which requires the regulator to make the best possible estimate of the rate of return at the time a regulatory determination is made and to take into account market circumstances, estimation methods, financial models and other relevant information. This framework provides the AER with greater discretion on the approach for setting WACC.

In addition, these rule changes provide for new tools, such as capital expenditure sharing schemes and ex post efficiency reviews, so the regulator can incentivise network service providers to invest capital efficiently. The regulator can also apply the tools, in particular benchmarking, as it considers appropriate to each network business, having regard to an overall objective that only capital expenditure that is efficient should form part of the regulated asset base. Operating expenditure is also subject to benchmarking comparisons to set efficient levels going forward.

The AER has now completed a process to establish the necessary guidelines. The AER's WACC guideline decision released on 17 December 2013 continued the pattern of WACC reductions by regulators since the energy businesses were privatised in Victoria in 1994. In particular, the non-diversifiable risk (beta) assumed for the network businesses underpinning the cost of equity has been reduced and the tax allowance has been reduced. However, other methodological changes are likely to promote stability in the cost of capital in the long term. The assumptions and methodologies set out in the WACC guidelines may be subject to appeals to the Australian Competition Tribunal at the time of individual price reviews, which may negatively affect AusNet Services' financial performance and position.

The rules changes require the AER to conduct a review of the WACC guidelines every 3 years.

The AER's new WACC guidelines will first apply to AusNet Services under the Victorian electricity distribution reset applicable from 1 January 2016. Once established, the application of these guidelines may have an adverse impact on AusNet Services in future regulatory determinations for its regulated gas distribution and electricity transmission and distribution networks.

The new guidelines have been applied by the AER for the first time on the draft determinations for the NSW networks.

A number of other regulatory reform processes are underway and could have a negative effect on revenue, net profit after tax and cash flow

A number of other regulatory reviews are in progress, including but not limited to those referred to in section 2.3(e).

These reviews and others could give rise to changes in the regulatory and statutory framework that could in time affect the AusNet Services' revenues and could have a negative impact on net profit after tax and cash flows.

Changes in the structure and regulation of the energy industry in Australia, or the manner in which regulation is administered, could impact AusNet Services' existing contracts

Some of AusNet Services' contracts, such as its use of system agreements, operate within previous or existing state and national regulatory frameworks. Some of these contracts have not kept pace with regulatory developments and, if a dispute arises, AusNet Services may not be able to reach agreement with contract counterparties as to appropriate solutions. There is a further risk that, as that framework changes further over time, the contracts may not operate as intended and AusNet Services may not be able to reach agreement with contract counterparties as to appropriate amendments, which could adversely affect AusNet Services' financial performance and position. This could also potentially lead to disputes. If these disputes cannot be resolved favourably, it may adversely affect the financial performance and position of AusNet Services.

b) Legal and operational risks

Network failures, equipment breakdowns, planned or unplanned outages, bushfires and other natural disasters, sabotage or terrorist attacks may cause losses to or harm AusNet Services' business and reputation

AusNet Services' energy transmission and distribution networks and information technology systems are vulnerable to human error in operation, equipment failure, natural disasters (such as bushfires, severe weather, floods and earthquakes), sabotage, terrorist attacks or other events which can cause service interruptions to customers, network failures, breakdowns or unplanned outages. Certain events may occur that may affect electricity transmission or distribution lines or gas mains in a manner that would disrupt the supply of electricity or gas. Failures in AusNet Services' equipment may cause supply interruptions or physical damage.

Any service disruption may cause loss or damage to customers, who may seek to recover damages from AusNet Services, and this could harm the business and reputation of AusNet Services. AusNet Services' emergency response, crisis management and business continuity management system, known as Strategic Plan for the Integration of Response and Contingency Systems, is the approved methodology to guide response and recovery activities, however it may not be able to effectively protect AusNet Services' business and operations from these events.

AusNet Services is also exposed to the cost of replacing faulty equipment. On rare occasions, faults in plant items are discovered only after the item has been installed extensively within a network, requiring a large scale replacement program. Only some such incidents are covered by plant warranties and in some instances these warranties may only be partial. Additionally, incidents in AusNet Services' zone substations and terminal stations have property cover to insure against failure, but incidents outside the boundaries of AusNet Services' zone substations and terminal stations are self-insured. Any forced replacement program, particularly if not insured or covered by warranties, could be costly and adversely affect AusNet Services' financial performance and position.

Liability arising out of February 2009 and February 2014 Victorian bushfires may adversely affect AusNet Services' financial position

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 22 December 2014, the Supreme Court of Victoria formally approved the settlement deed for the Kilmore East bushfire class action. Under the terms of the settlement, the parties involved in the litigation have paid \$494.7 million with AusNet Services contributing \$378.6 million which was paid in full by AusNet Services' liability insurers. The settlement was reached without admission of liability by AusNet Services or any other party.

On 6 February 2015, AusNet Services announced that the parties to the Murrindindi bushfire class action had agreed to settle the action. The settlement agreement is subject to the approval of the Supreme Court of Victoria. AusNet Services will make an ASX announcement when the court's decision is known. Under the terms of the settlement, the parties involved in the litigation have agreed to pay \$300 million with AusNet Services contributing \$260.9 million which will be paid in full by AusNet Services' liability insurers. The settlement was reached without admission of liability by AusNet Services or any other party.

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. Although the 2014 proceedings are in very early stages, and at this time there is no quantification of the claims associated with these fires, it can be stated with reasonable certainty that the quantum of claims associated with the Yarram and Mickleham proceedings will be significantly less than those in the 2009 Black Saturday bushfire proceedings. AusNet Services will update Securityholders by way of an ASX announcement if material new information becomes available in relation to the Yarram or Mickleham proceedings.

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.

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 and Electricity Safety (Electric Line Clearance) 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. A judgment against AusNet Services could adversely affect its financial performance and position, and its reputation, and cause AusNet Services to incur additional future costs to mitigate risk.

AusNet Services' insurance may not cover all potential liabilities and losses

Although AusNet Services maintains insurance that it believes is appropriate to protect against major operating and other risks, not all risks are insured or insurable. In particular, AusNet Services does not carry insurance for damage to its towers, poles, wires or pipelines. Due to changeable insurance market conditions, AusNet Services cannot be certain that adequate insurance coverage for potential losses and liabilities will be available in the future on commercially reasonable

terms, and may also elect to self-insure and/or carry increased deductibles. If AusNet Services experiences a loss in the future, the proceeds of the applicable insurance policies, if any, may not be adequate to cover replacement costs, lost revenues, increased expenses or liabilities to third parties.

For further details regarding the specific risks in connection with the February 2009 and February 2014 Victorian bushfires, see “Liability arising out of February 2009 and February 2014 Victorian bushfires may adversely affect AusNet Services’ financial position” above.

AusNet Services’ network revenues are exposed to variations in demand for gas and electricity and other factors affecting customer load

AusNet Services’ distribution network revenues are derived from the transported volume of electricity and gas metered at the connections to the distribution networks. The volume of electricity and gas used is subject to seasonal fluctuations and to a range of variables, including economic conditions, population growth, government policy, weather, alternative energy sources and technology, energy saving behaviour and availability of adequate supplies of electricity and gas. Economic recession and customer relocations out of a distribution area would also have a direct adverse effect on AusNet Services’ revenues. Similarly, unusually mild summers or warmer than normal winters can negatively affect the volume of electricity and gas that moves through its network, which may reduce revenue. There could also be a potential negative reaction by consumers to higher prices resulting in reduced demand. Total electricity usage in Victoria has been declining since 2010.

However, the electricity distribution network will be subject to a revenue cap with effect from 1 January 2016 and will no longer be subject to this risk.

AusNet Services is exposed to a variety of legal risks

AusNet Services is exposed to a variety of legal risks. These legal risks include, but are not limited to: claims by gas or electricity users or specialist utility, government, energy or water services customers, environmental claims, land and other property-related claims, including native title, industrial action, occupational health and safety claims, legal action from special interest groups and claims arising from third party losses alleged to have resulted from electricity network or gas pipeline disruptions or assets or the provision of specialist utility, government, energy or water services.

These legal risks are uncertain and any legal or financial liability arising from these risks may be material.

AusNet Services is exposed to changes in law and regulatory action

AusNet Services is exposed to changes in law or regulation, including changes in tax laws or regulations, and changes to the way in which those laws and regulations are interpreted and applied by regulators, including the ATO. Any such changes may have a retrospective effect and could have a material adverse effect on AusNet Services’ financial position, earnings, cash flows and ability to pay, or frank, distributions. Changes to law or regulation may include changes that are under consideration at the time of this Securityholder Booklet but have not been implemented.

Regulators (including tax authorities) may take action against AusNet Services. This may have an adverse effect on AusNet Services’ financial position, including as a result of fines, increased tax assessments and the cost of addressing and/or defending regulatory action.

Variations in inflation could adversely impact AusNet Services’ financial position

Under AusNet Services’ regulatory arrangements, the regulatory return it receives is dependent on movements in the quarterly Australian CPI. An unexpectedly low CPI result is likely to result in lower than expected cash flows and lower than expected revenues.

Some of AusNet Services’ operations are hazardous and could expose AusNet Services’ employees, customers, contractors and the community to health and safety risks

Occupational health and safety is a key risk area in the operation and maintenance of an energy transmission and distribution network. There are risks caused by circumstances beyond AusNet Services’ control, as well as the inherently dangerous nature of maintenance and construction work involving electricity and gas transmission and distribution facilities.

AusNet Services’ businesses also give rise to the risk of claims by (individual, industrial or commercial) customers or the community as a result of the dangers associated with:

- > downed powerlines, broken gas mains, oil spills and other events in connection with the construction, operation, management and maintenance of electricity transmission and electricity and gas distribution networks and other assets
- > infrastructure leasing and licensing and providing specialist utility, government, energy and water services such as vegetation management, asset inspection and condition monitoring, chemical testing, metering and water infrastructure services.

Although AusNet Services has implemented various risk management systems designed to identify and eliminate or manage risks to employees, contractors, customers and the community through AusNet Services’ operations, AusNet Services cannot assert beyond doubt that such systems are adequate. Incidents, including fatalities and severe injuries, have occurred in the course of AusNet Services’ business in the past and may occur in the future. These risks will expose AusNet Services to potential material liabilities, such as claims, fines and increased expenses.

Unforeseen capital expenditure may adversely affect AusNet Services’ financial position

AusNet Services’ transmission and distribution businesses are subject to certain conditions requiring AusNet Services to complete necessary capital works. Due to unforeseen developments, AusNet Services may be required to spend a materially higher amount on capital expenditure than is currently envisioned. While the regulatory regime provides that AusNet Services will be compensated for regulatory capital expenditures incurred, funding unforeseen or unbudgeted capital expenditure requirements may adversely impact AusNet Services’ financial performance and position. While cost pass-through protections exist, there is a risk AusNet Services will be required to fund additional capital expenditure programs that may result from the unplanned capital expenditure, resulting in delayed or incomplete cost recovery.

Climate change and related regulations may result in increased capital and operating expenditure for the AusNet Services group

Climate change has the potential to require increases to capital and operating expenditure over time to accommodate changing operating conditions. For example, climate change may result in more extreme weather events, increasing bushfire risks and operational costs of responding to storm damage. In addition, regulatory developments responding to the threats posed by climate change may require increased expenditure and AusNet Services may be adversely affected if the AER does not recognise these increased costs.

AusNet Services continues to report its emissions under the *National Greenhouse and Energy Reporting Act 2007* (Cth) ("NGER"). Corporations meeting or exceeding the thresholds are required to lodge their reports on emissions by 31 October each year. AusNet Services meets the current thresholds under the NGER framework and lodged its current year's report with the Department of Climate Change and Energy Efficiency prior to the 31 October 2014 deadline.

Electric and magnetic fields may have adverse effects on human health

Electric and magnetic fields ("EMF") produced by electricity have been the subject of employee and public health concerns. Numerous scientific studies have been undertaken on the potential adverse effects of EMF on human health, none of which has established adverse effects, but there still remains substantial public and scientific debate. AusNet Services' distribution, sub-transmission and transmission lines EMF are within the health guidelines on EMF set by the National Health and Medical Research Council ("NHMRC"). These 1989 guidelines are being reviewed by the Australian Radiation Protection and Nuclear Safety Agency ("ARPANSA"). At present, the 1989 NHMRC guidelines remain in current use in Australia. Any future ARPANSA standard could require AusNet Services to re-design and re-construct some installations to ensure that EMF are within acceptable limits, which could adversely affect AusNet Services' financial performance and position. Adverse findings relating to EMF may also lead to litigation against AusNet Services which could expose AusNet Services to material damages claims. AusNet Services participates in the ARPANSA and international standard development processes and monitors the relevant scientific research, including work on standard compliant assessment.

AusNet Services' business and future revenues may be negatively impacted by increased reliance on ICT

The drive to reduce carbon emissions, customers' needs for higher levels of reliability and the reduction in the cost of digital technology have resulted in a greater role for ICT in the management and operations of utility networks. An example of this greater role includes the implementation of AMI in the electricity distribution business and other "Smart Network" technology to improve electricity supply reliability. This increased focus on the role ICT plays in the management and operations of utility networks will require the introduction of new technology. In the event there is any significant delay in the development of such new technology, this may negatively impact AusNet Services' revenue or require unforeseen capital investment to replace obsolete technology.

Another example is the current implementation of a new, organisation-wide, enterprise resource planning and enterprise asset management solution. The purpose of the solution is to deliver efficiencies, savings and opportunities, including improved processes and planning and the consolidation of certain systems across the business. However, as with all new business solutions, there are risks associated with solution design, implementation, budgeting, planning and integration and future maintenance, upgrades and support. The crystallisation of any such risks could adversely impact on the effectiveness and cost of such a solution and business continuity.

To mitigate this risk, AusNet Services has established a dedicated program, including a governance framework and a cross-functional team, to ensure the business needs are met and the program is delivered successfully.

AusNet Services' financial performance and position may also be adversely affected by the requirements for greater ICT investment if the AER does not recognise these increased costs.

Under-performance in provision of network services by AusNet Services' electricity networks would result in reduction of AusNet Services' revenue through incentive regimes implemented by the AER or the AEMO

Incentive mechanisms applicable to AusNet Services' electricity networks, which are regulated by the AER or the AEMO, reward or penalise AusNet Services for the reliability of its performance relative to its historic performance. Deterioration in network performance may arise from various causes, including unfavourable weather patterns, fire and the relative effectiveness of asset management strategies. If AusNet Services is denied awards, or attracts penalties under any applicable incentive mechanism, its revenue may be adversely affected.

c) Management and personnel risks

Failure to retain and attract skilled professional and technical employees could have an adverse effect on AusNet Services' operations

AusNet Services' success is dependent on its ability to attract, develop, retain and engage employees. Competition for skilled employees in Australia is high, especially in the energy industry, with a number of trade and technical roles experiencing state or national skills shortages. The limited supply of skilled workers could lead to increased labour costs. Even when new employees are hired, it may often take a considerable period of training before they possess the skills required to work effectively with the complex and sometimes dangerous facilities used in AusNet Services' business. The inability to attract, develop, retain and engage employees could adversely affect AusNet Services' financial performance and position.

AusNet Services is subject to the risk of disruptive industrial relations actions

Approximately 700 members of AusNet Services' workforce are covered by union collective agreements ("Enterprise Agreements"). Historically, the operations of certain AusNet Services subsidiaries have from time to time experienced work stoppages and other forms of industrial action when it is time to re-negotiate the terms of the Enterprise Agreements. AusNet Services' operations may be affected by industrial action in the future. Any industrial action, work stoppages or other labour-related developments may adversely affect AusNet Services' financial performance and position.

d) Financial risks

AusNet Services has a large amount of debt and is dependent on access to the capital markets for liquidity

As of 30 September 2014, AusNet Services' long term debt totalled \$5.3 billion and debt maturing during the 12-month period ending 30 September 2015 was \$1.3 billion, consisting of commercial paper, drawings under a working capital facility and certain maturing long-term debt. The degree to which AusNet Services may be leveraged in the future could affect the ability of AusNet Services to service debt and other obligations, to pay distributions to securityholders, to make capital investments, to take advantage of certain business opportunities, to respond to competitive pressures or to obtain additional financing. AusNet Services may incur substantial additional debt and other obligations such as leases, letters of credit and other instruments.

In addition, AusNet Services relies on access to financial markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows. AusNet Services' access to financial markets could be adversely impacted by various factors, such as a material adverse change in AusNet Services' business or a reduction in its credit ratings. The inability to raise capital on favourable terms, particularly during times of uncertainty in the financial markets, could impact AusNet Services' ability to sustain and grow its businesses, which are capital intensive, and would likely increase its capital costs.

A downgrade in the credit ratings of AusNet Services could increase AusNet Services' borrowing costs and reduce its sources of liquidity

If a rating agency were to downgrade the long term ratings of AusNet Services, AusNet Services' borrowing costs may increase and its potential sources of liquidity could likely decrease. A downgrade in AusNet Services' credit ratings below certain thresholds could trigger a requirement for AusNet Services to comply with additional financial covenants. Under certain circumstances, a change of control may trigger a review, or termination, event in respect to certain of AusNet Services' borrowings or hedging arrangements.

Australian Taxation Office disputes

i) Section 163AA impost

On 12 December 2014, the High Court of Australia granted AusNet Services special leave to appeal a judgment by the Full Court of the Federal Court of Australia against AusNet Services in relation to 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 \$89.8 million as at 31 March 2015 (representing \$54.0 million of primary tax, plus an interest component of \$35.8 million). Of this total disputed amount, AusNet Services paid \$30.6 million to the ATO in October 2011. Following the Federal Court's first instance decision, a charge of \$86.7 million was recorded by AusNet Services in its income statements for the financial period ended 30 September 2013. An additional charge of \$3.0 million will be recorded by AusNet Services in its income statements in the financial period ended 31 March 2015.

The High Court heard the appeal on 9 April 2015. AusNet Services will make an ASX announcement when the outcome of the appeal is known. It is not expected that this will occur prior to the Meetings.

AusNet Services continues to believe that the fees imposed under section 163AA are deductible. If AusNet Services' appeal is successful, there will be a positive impact on AusNet Services' financial position of up to \$89.8 million. If the appeal is rejected, there will be no material impact on AusNet Services' financial position as a result of the charge previously recognised.

ii) 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 \$93.5 million (representing \$27.4 million of primary tax, \$26.0 million of interest and penalties and \$40.1 million of future tax benefits) as at 31 March 2015. Of this amount, AusNet Services paid \$17.2 million to the ATO in October 2011. This amount has been recorded as a non-current receivable in AusNet Services' financial statements since October 2011.

On 15 April 2014, the ATO lodged a notice of appeal in the Federal Court. The appeal was heard in November 2014, with judgment expected before 30 June 2015. AusNet Services will make an ASX announcement when the outcome of the appeal is known.

Subject to the outcome of any such court proceedings and/or resolution of the disputed matters with the ATO, AusNet Services will either become entitled to a refund of \$17.2 million of tax paid to the ATO and will be entitled to claim the future tax benefits of \$40.1 million, or may seek special leave to appeal the matter to the High Court of Australia in the event that the Full Court's decision is unfavourable.

If AusNet Services is ultimately unsuccessful, there will be an adverse impact of approximately \$52.7 million (plus any additional interest and penalties) on AusNet Services' financial position, as well as the inability to claim the future tax benefits of \$40.1 million.

AusNet Services is exposed to interest rate risk

As at 30 September 2014, AusNet Services hedged 94.6% of the interest rate exposure on its debt relating to each of its businesses (electricity distribution, gas distribution and electricity transmission) for the duration of the relevant regulatory reset periods. AusNet Services is nonetheless exposed to adverse interest rate movements in the medium to long term, as its Treasury Risk Policy permits the percentage of debt hedged to range between 90% and 100% and, in the medium to long term, the percentage of hedged debt may vary within this limit. AusNet Services remains exposed to credit spreads on debt that is refinanced or new debt that is raised during the regulatory period.

AusNet Services is exposed to counterparty credit risk

AusNet Services is exposed to credit-related losses in the event of non-performance by counterparties to contracts, including by counterparties to derivative instruments which AusNet Services uses to manage financial risks (i.e. cross currency and interest rate swaps). Additionally, AusNet Services' business involves the provision of services to a small number of large energy retailers. Accordingly, AusNet Services is exposed to the risk that one or more of these retailers may become insolvent or otherwise unable to meet their financial obligations to AusNet Services. Non-performance by one of AusNet Services' counterparties could have a material adverse impact on AusNet Services' earnings.

Valuation of derivatives may result in further deterioration of reserves

AusNet Services does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. It is AusNet Services' policy to ensure, wherever possible, that all hedging activities comply with the hedge accounting requirements of AASB 139 Financial Instruments: Recognition and Measurement. However, there may be instances where it makes commercial and economic sense to enter into derivative transactions that are not treated as effective hedges under accounting standards. In these instances, under AASB 139 such derivatives must be classified as "held for trading". However, this classification is not an indication of intent to trade in derivative financial instruments.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in equity in the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. As at 30 September 2014, reserves were negative \$42.9 million due to the valuation of derivatives held under cash flow hedging arrangements. Movements in the fair value of derivatives held in a cash flow hedging relationship could result in a further deterioration of reserves.

Hedge accounting and de-designation of interest rate swaps may result in a loss being recognised in AusNet Services' income statement

AusNet Services manages its interest rate risk with fixed rate debt and swaps. The objective of the hedging activities carried out by AusNet Services in relation to its regulated businesses is to minimise the exposure to changes in interest rates 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 business.

Under AASB 139, any debt funding that incorporates a derivative is a derivative in total and cannot be added to an existing hedge relationship with another derivative (e.g. existing A\$ fixed interest rate swaps hedging existing A\$ floating rate debt). As a result, if any new foreign currency debt (after it is converted to A\$ floating rate debt via cross currency swaps) is used to repay A\$ floating rate debt that is in an existing hedge relationship with A\$ fixed interest rate swaps, a portion of the A\$ fixed interest rate swaps may need to be de-designated from the existing hedge relationship. The de-designated hedges continue to be effective economic hedges and may be re-designated into new hedge relationships in accordance with AASB 139. Although there is no cash impact, de-designation may result in a loss being released from the cash flow hedge reserve and transferred to the income statement, pursuant to AASB 139, based on the valuation at the date of de-designation. This loss is "offset" by the equivalent gain recognised in the income statement over the remaining life of the interest rate swaps.

The Australian Accounting Standards Board has released a new accounting standard for general hedge accounting to replace the requirements of AASB 139. This new standard proposes a number of significant changes to the establishment, on-going accounting and effectiveness monitoring of hedge accounting relationships. While the new standard more closely aligns hedge accounting with the risk management strategy of an entity, there is a risk that the new model may result in additional gains and losses being recognised in the income statement. The new accounting standard is effective from 1 January 2018, although it may be adopted earlier.

AusNet Services is obligated to contribute to employee pension funds

AusNet Services makes contributions to two Equisuper defined benefit superannuation plans that provide defined benefit amounts to certain employees or their dependants upon retirement, death, disablement or withdrawal. Benefits are mostly in the form of a lump sum based on the employee's final average salary although, in some cases, defined benefit members are also eligible for pension benefits. The terms and conditions of the two plans are consistent. The defined benefit sections of the Equisuper plans are closed to new members. An independent actuary performs actuarial valuations of the funds annually for 31 March in each year and additionally on other ad hoc dates as deemed appropriate.

The plans had a net deficit recognised on the balance sheet, as calculated in accordance with accounting standard AASB 119 Employee Benefits, of \$18.7 million as at 30 September 2014.

Defined benefit funds are long term in nature and the actuarial calculations are based on long term expectations. Any short term fluctuations from the long term average will result in movements in the net surplus/deficit position of the fund. AusNet Services makes contributions to the defined benefit funds based on the target funding method. Under this method, the contribution rate is set at a level which is expected to result in the plans' assets equalling 105% of the plans' liabilities within 5 years. Adverse movements in the market values of the plans' assets or actual obligations to be paid may result in AusNet Services being required to make additional contributions.

e) Risks related to NewCo Shares

United States and other non-Australian Securityholders may be ineligible to participate in future rights offerings and other pro rata rights offerings

To the extent that NewCo makes future rights offerings or other pro rata offerings to Securityholders, US and other non-Australian Securityholders may be unable to participate in such offerings due to local laws or regulations.

Exchange rate fluctuations may adversely affect the value of any dividends

Dividends, if any, in respect of NewCo Shares will be paid in Australian dollars and converted into Singapore dollars for those investors whose NewCo Shares are held by CDP. In addition, from time to time, NewCo may determine to also convert, if any, dividends paid in Australian dollars in respect of NewCo Shares into the local currency of Securityholders in certain other foreign jurisdictions. At the date of this Securityholder Booklet, AusNet Services had provided Securityholders (other than CDP Account Holders) with registered addresses in New Zealand with the option of having distributions, if any, paid in Australian dollars converted into New Zealand dollars and paid to them by way of direct credit, net of conversion fees.

Fluctuations in the exchange rate between the Singapore dollar or other foreign currencies and the Australian dollar will affect, among other things, the Singapore dollar or other foreign currency value of NewCo dividends, if any, determined and paid in Australian dollars.

3 Financial impact of the Proposal

3.1 Introduction

The Pro Forma Historical Information presented below has been prepared to illustrate the impact of the Proposal on the historical financial position and financial performance of AusNet Services as if the Proposal had been implemented on 1 April 2012 for the income statements and cash flow statements, and on 30 September 2014 for the statement of financial position. The Pro Forma Historical Information is not represented as being indicative of AusNet Services' views on its future financial performance or position. Investors should note that past performance is not a reliable indicator of future performance.

In addition to the impact of the Proposal, there are a number of other items that should be considered and are relevant to the Pro Forma Historical Information:

Prior to the implementation of the Proposal:

- > Up until 31 March 2014, AusNet Services' financial statements included tax deductions in respect of interest paid on the AusNet Services Trust Loans.
- > On 4 March 2015, AusNet Services entered into a binding settlement deed with the ATO in relation to intra group financing arrangements involving cancellation of losses and a cash settlement payment (refer section 3.2). As part of the settlement, AusNet Services agreed to cease taking interest deductions on AusNet Services Trust Loans from 1 April 2014.

After the implementation of the Proposal:

- > AusNet Services intends to form a single tax consolidated group. Due to the application of the tax consolidation provisions, which include the making of certain elections and the resetting of tax bases of certain AusNet Services assets, there is expected to be a step-up in the tax base of certain assets on the formation of the new tax consolidated group (refer section 3.3(c)).
- > The Proposal will result in the cancellation of \$510 million of tax losses. These losses were incurred prior to AusNet Services' IPO in 2005 and can only be transferred into the single tax consolidated group if AusNet Services satisfies a modified "same business test" under Australian tax law (**Same Business Test**). The effect of the tax loss cancellation is expected to be fully offset by the tax base step up referred to above on formation of the new tax consolidated group.

3.2 Basis of preparation

The summary pro forma consolidated financial information has been derived from the combined financial statements of AusNet Services Distribution for the years ended 31 March 2013 and 31 March 2014 and the combined interim financial statements of AusNet Services Distribution for the financial period ended 30 September 2014. These historical financial statements are available on AusNet Services' website at www.ausnetservices.com.au.

The annual financial reports for the years ended 31 March 2013 and 31 March 2014 have been subject to audit in accordance with the AASB. The audit opinions issued to the members of AusNet Services relating to these financial statements were unqualified. The interim financial report for the six month period ended 30 September 2014 was not audited but has been subject to review by AusNet Services' auditor for the purpose of the members of AusNet Services, in accordance with the Auditing Standard on Review Engagements (ASRE) 2410 "Review of a Financial Report Performed by the Independent Auditor of the Entity". The review report issued to the members of AusNet Services relating to these financial statements was unqualified.

As a result of the Stapling Deed, the combined financial statements of AusNet Services are currently prepared as an aggregation of the financial statements of AusNet Services Distribution and its controlled entities, AusNet Services Transmission and its controlled entities and AusNet Services Trust as if all entities operate together. For statutory reporting purposes, AusNet Services Distribution was identified as the acquirer in the AusNet Services stapled group and accordingly presents the combined financial report of the stapled group.

The Pro Forma Historical Information presented, including the pro forma adjustments described below, have been prepared in accordance with the measurement and recognition requirements, but not the presentation or disclosure requirements, of AASB, IFRS, other mandatory reporting requirements in Australia and the accounting policies of AusNet Services. In preparing the financial information, the accounting policies of AusNet Services have been applied consistently throughout the periods presented.

Historically, AusNet Services' current liabilities have exceeded current assets (30 September 2014: current liabilities exceed current assets by \$716.4 million). The Pro Forma Historical Information has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. AusNet Services is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, AusNet Services maintains adequate cash reserves, committed banking facilities and reserve borrowing facilities (30 September 2014: \$375 million available facilities and \$674.6 million cash). As at 28 February 2015, AusNet Services had \$400 million of available facilities and \$807.4 million of cash.

The AusNet Services Directors are responsible for the preparation and presentation of the Pro Forma Historical Information.

Settlement with Australian Tax Office

On 4 March 2015, AusNet Services and the ATO executed a binding agreement to settle all matters concerning intra-group financing arrangements and rights to future income issues. As a result of this agreement to settle, AusNet Services ceased taking interest deductions in respect of AusNet Services Trust Loans from 1 April 2014. The impact of the settlement was a combination of cancelling tax losses and making a settlement payment, with an income tax expense impact of \$163.0 million recognised for the period to 30 September 2014. For the purposes of presenting the Pro Forma Historical Information below and to demonstrate the impact on the financial statements as if the Proposal was implemented, the statements of cash flows for 31 March 2014 and 30 September 2014 have been adjusted to exclude the deductions for interest on the AusNet Services Trust Loans. This adjustment has the effect of increasing income tax paid.

Stamp duty

On 28 October 2014, the Treasurer of Victoria advised AusNet Services that ex gratia relief will be granted in relation to the potential stamp duty liability on the implementation of the Proposal on terms that are equivalent to those that would apply to a corporate reconstruction or corporate consolidation exemption in Victoria.

The mechanism for the ex gratia relief is yet to be finalised. However, following the implementation of the Proposal, it is expected that AusNet Services will be issued with an assessment from the State Revenue Office of Victoria which will be payable in three years. Provided AusNet Services satisfies the conditions of the ex gratia relief at the end of the three year period, the assessment will be paid out of the government consolidated revenue and not by AusNet Services. One condition is that NewCo, AusNet Services Distribution and AusNet Services Transmission remain part of the same corporate group for a period of at least three years from the Implementation Date. AusNet Services expects to be able, and has the ability, to satisfy the conditions of the ex gratia relief. Accordingly, a pro forma adjustment has not been made for the stamp duty assessment from the State Revenue Office. The stamp duty liability that would be payable by AusNet Services if the terms of the ex gratia relief were not met is estimated to be \$40 million.

3.3 Pro forma consolidated statement of financial position

The following table presents AusNet Services' combined statement of financial position as at 30 September 2014, as well as the pro forma consolidated statement of financial position as at 30 September 2014, which is presented on the assumption that the pro forma adjustments as described in this section had occurred on 30 September 2014.

Condensed Statement of Financial Position as at 30 September 2014

\$ million	Combined stapled group 30 September 2014 (a)	Reorganisation adjustments (b)	Pro forma adjustments			Pro forma consolidated 30 September 2014
			Tax adjustments (c)		Cost of Proposal (d)	
			Tax base step-up	Tax loss cancellation		
ASSETS						
Current assets						
Cash and cash equivalents	674.6	-	-	-	(6.0)	668.6
Receivables	320.1	-	-	-	-	320.1
Other current assets	122.7	-	-	-	-	122.7
Total current assets	1,117.4	-	-	-	(6.0)	1,111.4
Non-current assets						
Receivables	211.6	-	-	-	-	211.6
Intangible assets	392.8	-	-	-	-	392.8
Property, plant and equipment	9,134.9	-	-	-	-	9,134.9
Other non-current assets	361.9	-	-	-	-	361.9
Total non-current assets	10,101.2	-	-	-	-	10,101.2
Total assets	11,218.6	-	-	-	(6.0)	11,212.6
LIABILITIES						
Current liabilities						
Borrowings	1,312.0	-	-	-	-	1,312.0
Current tax payable	106.9	-	-	-	(1.8)	105.1
Other current liabilities	414.9	-	-	-	-	414.9
Total current liabilities	1,833.8	-	-	-	(1.8)	1,832.0
Non-current liabilities						
Borrowings	5,254.4	-	-	-	-	5,254.4
Deferred tax liabilities	438.9	-	(242.7)	153.0	-	349.2
Other non-current liabilities	339.6	-	-	-	-	339.6
Total non-current liabilities	6,032.9	-	(242.7)	153.0	-	5,943.2
Total liabilities	7,866.7	-	(242.7)	153.0	(1.8)	7,775.2
Net assets	3,351.9	-	242.7	(153.0)	(4.2)	3,437.4
EQUITY						
Equityholders of parent entity						
Contributed equity	0.5	4,922.5	-	-	-	4,923.0
Restructure reserve	-	(1,520.5)	-	-	-	(1,520.5)
Reserves	(42.9)	51.4	-	-	-	8.5
Other equity	-	(1,095.1)	-	-	-	(1,095.1)
Retained profits	593.9	442.1	242.7	(153.0)	(4.2)	1,121.5
	551.5	2,800.4	242.7	(153.0)	(4.2)	3,437.4
Equityholders of AusNet Services Transmission and AusNet Services Trust						
	2,800.4	(2,800.4)	-	-	-	-
Total equity	3,351.9	-	242.7	(153.0)	(4.2)	3,437.4

a) Combined stapled group 30 September 2014

Source: AusNet Services' combined statement of financial position as disclosed in AusNet Services' Interim Financial Report for the period ended 30 September 2014.

b) Reorganisation adjustments

Under the existing stapled structure, AusNet Services Distribution was designated as the parent entity of the AusNet Services group. Consequently, the equity balances of AusNet Services Transmission and AusNet Services Trust have historically been disclosed as "non-controlling interests" within the combined financial statements.

Under the Proposal, AusNet Services Transmission and AusNet Services Trust will become direct subsidiaries of the new parent entity, NewCo. As a result, the non-controlling interests are reclassified to their respective equity line items in the statement of financial position.

NewCo, as the parent entity, will hold the investments in AusNet Services Distribution, AusNet Services Transmission and AusNet Services Trust. Accounting standards require these investments to be initially measured at fair value on the date of acquisition. They will be subsequently accounted for at cost in the separate financial statements of NewCo and will be subject to annual impairment testing.

As NewCo will acquire these investments through the issuing of shares, the contributed equity of NewCo will also be initially measured at fair value. The fair value will be determined with reference to the market capitalisation of AusNet Services Stapled Securities immediately prior to the implementation of the Proposal. For the purposes of presenting the Pro Forma Historical Information, the market capitalisation on 20 March 2015 has been used to present the contributed equity of NewCo.

The contributed equity of AusNet Services under the Proposal will be equal to the contributed equity of the new parent, NewCo. The difference between the contributed equity of NewCo and the combined historical contributed equity of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Trust is recognised as a restructure reserve.

To the extent the market capitalisation of AusNet Services increases or decreases, this would have the effect of increasing or decreasing the adjustment to the contributed equity of NewCo, with a corresponding adjustment to the restructure reserve.

There is no impact on the total equity or net assets of AusNet Services as a result of the reorganisation adjustments, including any increase or decrease in the market capitalisation of AusNet Services.

c) Tax adjustments

Tax base step up

Due to the application of the tax consolidation provisions, which include the making of certain elections and the resetting of tax bases of certain AusNet Services assets, it is estimated that there will be an increase in the tax base of AusNet Services' assets of \$809.0 million when AusNet Services forms a single tax consolidated group after the Proposal is implemented.

The effect of this increase in the tax base on the pro forma statement of financial position is a net reduction to the deferred tax liability of approximately \$242.7 million (being 30% of \$809 million).

The tax base increase of \$809.0 million has been determined on the basis of the following key assumptions:

- > For the purposes of the Pro Forma Historical Information the step-up has been measured as at 30 September 2014, based on the tax balance sheet of AusNet Services Distribution. The actual tax base increase will be calculated on the date of implementation of the Proposal. Any movements in the liabilities or retained cost base assets of AusNet Services Distribution will impact on the size of the tax base increase.
- > The calculation is based on the tax law as it currently stands. There are pending amendments to the consolidation rules which may be introduced which could adversely impact the quantum of the step-up value.
- > The tax base increase is determined on the basis of estimated relative market values for all asset classes. Upon implementation of the Proposal, actual market values will be obtained for all asset classes. As a result of updated market value relativities, a higher or lower tax base step-up may arise.
- > As part of the annual pre-tax return lodgement compliance review program conducted by the ATO, AusNet Services expects further detailed engagement with the ATO in respect of all aspects of tax consolidation outcomes, which may ultimately lead to a higher or lower tax base step-up being adopted by AusNet Services.

Tax loss cancellation

AusNet Services currently has \$510 million of tax losses that are subject to the Same Business Test. It has been confirmed with the ATO that those losses will be cancelled under the Proposal. As a result, a pro forma adjustment to increase the deferred tax liability by \$153.0 million (being 30% of \$510 million) has been included in the pro forma statement of financial position.

d) Cost of Proposal

The estimated professional advisory fees (external consultants and advisers, including legal, financial and taxation adviser costs and the independent expert) incurred as a result of the Proposal of \$6.0 million (pre-tax) have been reflected as an adjustment to cash and cash equivalents.

3.4 Historical combined income statements

The historical combined income statements of AusNet Services Distribution are reflective of the consolidated income statements of NewCo after the implementation of the Proposal in that there are no ongoing impacts on the income statement arising from the Proposal. As a result, no pro forma consolidated income statements have been presented.

The historical income statements of the AusNet Services stapled group for the years ended 31 March 2013, 31 March 2014 and half year ended 30 September 2014 are presented below.

Historical income statements

\$ million	Combined stapled group half year ended 30 September 2014	Combined stapled group year ended 31 March 2014	Combined stapled group year ended 31 March 2013
Revenue	971.3	1,799.4	1,639.5
Expenses, excluding finance costs	(631.0)	(1,094.0)	(988.3)
Termination expenses	-	(57.7)	-
Profit from operating activities	340.3	647.7	651.2
Finance income	15.1	24.7	18.1
Finance costs	(162.0)	(367.0)	(354.0)
Net finance (costs)/income	(146.9)	(342.3)	(335.9)
Profit before income tax	193.4	305.4	315.3
Income tax expense	(198.3)	(127.1)	(41.8)
Profit/(loss) for the period	(4.9)	178.3	273.5

Source: AusNet Services' Annual Financial Report for the years ended 31 March 2013, 31 March 2014 and Interim Financial Report for the period ended 30 September 2014.

While there are no ongoing income statement impacts, there will be a number of one-off adjustments to income tax expense, and therefore net profit after tax, when AusNet Services forms a single tax consolidated group.

- > The tax base increase that arises on tax consolidation will result in a one-off reduction to tax expense. This is estimated to be \$242.7 million, based on a number of assumptions that have been used in the tax valuation as detailed in section 3.3(c).
- > As a result of the Same Business Test tax loss cancellation, a one-off increase in tax expense of \$153.0 million arises.

If the Proposal had been implemented on 30 September 2014, these adjustments would have resulted in a one-off increase in AusNet Services' net profit after tax of \$89.7 million. The actual adjustments, including the one-off increase to net profit after tax, will be recognised in the financial year in which the Proposal is implemented (expected to be the financial year ending 31 March 2016).

While there is no ongoing impact in the income statement, the flow on effect of the adjustments to the income tax paid by the business will impact ongoing AusNet Services cash flows and are included within the pro forma cash flows statements shown in section 3.5.

Significant items included in the historical income statements

Profit for the half year ended 30 September 2014 was a loss of \$4.9 million. Impacting the result was 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 in relation to customer rebates and impairment of AMI assets.

Due to the seasonal nature of AusNet Services' business, with electricity distribution and gas distribution volumes displaying seasonal variation, results for interim periods may or may not be indicative of results that may be expected for an entire year.

Profit for the year ended 31 March 2014 was \$178.3 million. Impacting the result was the recognition during the period of \$86.7 million in income tax expense for the full amount of tax and interest potentially payable under the Section 163AA impost dispute with the ATO and the \$40.4 million (after tax) of expenses in terminating the Management Services Agreement with Singapore Power.

3.5 Pro forma consolidated statements of cash flows

The following tables set out AusNet Services' combined statement of cash flows for the financial year ended 31 March 2014 and half year ended 30 September 2014 as well as the pro forma consolidated statements of cash flows for the financial year ended 31 March 2014 and half year ended 30 September 2014, which are presented on the assumption that the pro forma adjustments had occurred prior to the beginning of the period:

Condensed Statement of Cash Flows for the half year ended 30 September 2014

\$ million	Combined stapled group 30 September 2014 (a)	Tax settlement adjustments (b)	Adjusted 30 September 2014	Proposal impacts – tax adjustments (c)	Pro forma consolidated 30 September 2014
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)	1,039.0	-	1,039.0	-	1,039.0
Payments to suppliers and employees (inclusive of goods and services tax)	(487.5)	-	(487.5)	-	(487.5)
Payment of MSA termination fee (inclusive of goods and services tax)	(39.3)	-	(39.3)	-	(39.3)
Income tax paid	(27.8)	(11.6)	(39.4)	11.2	(28.2)
Finance income received	11.3	-	11.3	-	11.3
Finance costs paid	(160.9)	-	(160.9)	-	(160.9)
Net cash inflow/(outflow) from operating activities	334.8	(11.6)	323.2	11.2	334.4
Net cash outflow from investing activities	(415.6)	-	(415.6)	-	(415.6)
Net cash inflow/(outflow) from financing activities	345.6	-	345.6	-	345.6
Net increase/(decrease) in cash held	264.8	(11.6)	253.2	11.2	264.4
Cash and cash equivalents at the beginning of the period	409.8	-	409.8	-	409.8
Cash and cash equivalents at the end of the period	674.6	(11.6)	663.0	11.2	674.2

Condensed Statement of Cash Flows for the year ended 31 March 2014

\$ million	Combined stapled group 31 March 2014 (a)	Tax settlement adjustment (b)	Adjusted 31 March 2015	Proposal impacts – tax adjustments (c)	Pro forma consolidated 31 March 2014
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)	2,000.3	-	2,000.3	-	2,000.3
Payments to suppliers and employees (inclusive of goods and services tax)	(897.3)	-	(897.3)	-	(897.3)
Income tax paid	(35.4)	(23.3)	(58.7)	16.2	(42.5)
Finance income received	23.1	-	23.1	-	23.1
Finance costs paid	(360.5)	-	(360.5)	-	(360.5)
Net cash inflow/(outflow) from operating activities	730.2	(23.3)	706.9	16.2	723.1
Net cash outflow from investing activities	(939.8)	-	(939.8)	-	(939.8)
Net cash inflow from financing activities	78.4	-	78.4	-	78.4
Net increase/(decrease) in cash held	(131.2)	(23.3)	(154.5)	16.2	(138.3)
Cash and cash equivalents at the beginning of the year	541.0	-	541.0	-	541.0
Cash and cash equivalents at the end of the year	409.8	(23.3)	386.5	16.2	402.7

a) Combined stapled group 30 September 2014 and 31 March 2014

Source: AusNet Services' combined statement of cash flows as disclosed in AusNet Services' Interim Financial Report for the period ended 30 September 2014 and Annual Financial Report for the year ended 31 March 2014.

b) Tax settlement adjustment

As noted in the Basis of Preparation in section 3.2, as a result of the settlement with the ATO the pro forma statements of cash flows have been adjusted to exclude the deductions for interest on the AusNet Services Trust Loans. This adjustment has the effect of increasing income tax paid by \$11.6 million for the period ended 30 September 2014 and \$23.3 million for the year ended 31 March 2014.

c) Proposal impacts – Tax adjustments

On the basis the Proposal is implemented and a single tax consolidated group is formed, income tax paid would be adjusted as follows:

- > the step-up in tax bases of depreciable assets of AusNet Services Distribution that would result in an annual tax depreciation increase of \$32.4 million, which gives rise to a cash tax saving of \$9.7 million for the year ended 31 March 2014 (\$4.9 million for the half year ended 30 September 2014). There are a number of assumptions that underpin this adjustment, which are detailed in section 3.3(c).
- > the ability of the single tax consolidated group to utilise AusNet Services Distribution's current period tax losses would change. Once a single tax consolidated group is formed, income tax paid would be calculated based on the net taxable profit of the consolidated group, rather than separately for the AusNet Services Distribution and AusNet Services Transmission businesses. This means that any tax losses made by one of the businesses in a particular financial year would be immediately offset against the taxable income of the other business in that year. The effect is a cash tax saving of \$6.5 million for the year ended 31 March 2014 (\$6.3 million for the half year ended 30 September 2014). It should be noted that past performance is not a reliable indicator of future performance.

The effect of the above two bullet points is a cash tax saving of \$11.2 million for the period ended 30 September 2014 and \$16.2 million for the year ended 31 March 2014. For the purposes of calculating these pro forma impacts it has been assumed that adjustments that impact the tax return in one year will flow through income tax paid in the following year by the same quantum and that instalments are made quarterly in four equal payments with two in each half year.

The difference between the cash tax saving under the Proposal and the additional tax payable arising under the settlement with the ATO is influenced by a number of factors and could vary between periods. These factors include, but are not limited to, the interest rate on the AusNet Services Trust Loans and the level of tax losses from the AusNet Services Distribution business that would be used to offset against the tax payable by the AusNet Services Transmission business. For example if the pro forma cash flow statement was presented for the year ended 31 March 2015, the estimated pro forma adjustments would be an increase to income tax paid of \$23.3 million arising from the ATO settlement and a decrease to income tax paid of \$22.4 million due to the implementation of the Proposal.

In addition to the pro forma adjustments noted above, the ability of the single tax consolidated group to utilise AusNet Services Distribution's historical tax losses, tax offsets and credits will temporarily reduce the amount of cash tax paid, subject to certain limitations under tax consolidation. As these impacts are considered one-off/short term in nature they have not been reflected in the Pro Forma Historical Information above. The resulting reduction in tax payable is approximately \$54.9 million, which is expected to be released within the first two years of implementation.

3.6 Impact on distributions

If the Proposal is implemented, AusNet Services will continue to determine future distribution amounts based on operating cash flows after servicing all of its maintenance capital expenditure and a portion of its growth capital expenditure, which is consistent with current policy. Additionally, future periodic distributions are expected to be entirely paid as dividends by NewCo, in contrast to historic distributions which have been a combination of dividends, interest income and return of capital.

AusNet Services expects to pay a distribution of at least 4.18 cents per security for the second half of the financial year ending 31 March 2015. AusNet Services expects the distribution to be franked at approximately 60% if the Proposal is implemented, and at approximately 53% if the Proposal is not implemented.

AusNet Services' ability to distribute available franking credits under its existing structure would be limited by the need to pay a large component of its periodic distributions as distributions of AusNet Services Trust interest income which, unlike company dividends, cannot be franked.

The Proposal enables AusNet Services to distribute available franking credits more quickly than under the current structure. Securityholders should note that the level of franking of distributions in future years will depend on the availability of franking credits and the AusNet Services Board determining to pay franked dividends. The availability of franking credits may be affected by a range of factors, including business performance and the amount of cash tax paid.

3.7 Key financial ratios

AusNet Services key financial ratios are as follows:

Ratio	Calculation	30 Sep '14	31 Mar '14	31 Mar '13
Net Debt to Asset Base	Debt at face value less cash divided by Regulated & Contracted Asset Base	69%	69%	68%
Interest Cover Ratio	EBITDA less customer contributions and tax paid, divided by net interest expense	3.0x	2.5x	2.5x
Earnings per AusNet Services Stapled Security	Net profit after tax divided by weighted average number of stapled securities	(0.14) cents ¹	5.28 cents ²	8.37 cents

1. Includes \$163 million in income tax expense for the settlement with the ATO in relation to the intra group financing audit and \$36.8 million (after tax) for the recognition of Advanced Metering Infrastructure (AMI) customer rebates and AMI asset impairment.

2. Includes \$86.7 million in income tax expense for the full amount potentially payable under the section 163AA impost dispute with the ATO and the \$40.4 million (after tax) of expenses in terminating the Management Services Agreement with Singapore Power.

There is no impact on Net Debt to Asset Base and earnings per AusNet Service Stapled Security as a result of this Proposal. The number of NewCo Shares that will be on issue following implementation of the Proposal is the same as the number of existing AusNet Services Stapled Securities.

As this Proposal has an impact on income tax paid (as detailed in section 3.5), if this Proposal was implemented interest cover ratio would be as follows:

Ratio	30 Sep '14	31 Mar '14	31 Mar '13
Interest Cover Ratio (historical)	3.0x	2.5x	2.5x
<i>Post settlement & pre Proposal:</i>			
Adjusted Interest Cover Ratio (adjusted to exclude interest deductions on AusNet Services Trust Loans)	2.9x	2.4x	2.5x
<i>Post Proposal:</i>			
Pro Forma Interest Cover Ratio	3.0x	2.5x	2.5x

3.8 Events subsequent to 30 September 2014

Since the end of the 30 September 2014 financial period, the following significant events have occurred. These events have not been adjusted for in the pro forma statement of financial position:

- > Repayment of \$400 million US dollar senior notes, \$100 million drawing under Working Capital Facility and \$130 million Commercial Paper notes.
- > Payment of the interim distribution of \$143.2 million, net of \$54.2 million as a result of the utilisation in the allotment of new securities issued under the distribution reinvestment plan.
- > On 13 February 2015, AusNet Services successfully priced a EUR 560 million, 12-year bond issue to raise approximately A\$825 million. Approximately A\$800 million of the proceeds from this bond issue has been placed on deposit to (i) repay a Swiss Franc bond (A\$520 million equivalent) maturing in September 2015 and (ii) fund forecast growth capital expenditure over FY15/16.
- > On 6 February 2015, AusNet Services announced that the parties to the Murrindindi bushfire class action had agreed to settle the action. The settlement agreement is subject to the approval of the Supreme Court of Victoria. Under the terms of the settlement, the parties involved in the litigation have agreed to pay \$300 million with AusNet Services contributing \$260.9 million which will be paid in full by AusNet Services' liability insurers. The settlement was reached without admission of liability by AusNet Services or any other party.
- > The financial statements of AusNet Services for the year ended 31 March 2015 were not available at the time of issuing this Securityholder Booklet, but are expected to be released to the ASX on 14 May 2015.

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The Directors
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AusNet Services (Transmission) Ltd
AusNet Services (RE) Ltd as Responsible Entity of AusNet Services Finance Trust
AusNet Services Ltd
Level 31, 2 Southbank Boulevard
Southbank VIC 3006

22 April 2015

Dear Directors,

AUSNET SERVICES PROPOSED RESTRUCTURE: AUSTRALIAN INCOME TAX CONSIDERATIONS FOR SECURITYHOLDERS

We have been requested to comment on the Australian income tax considerations for AusNet Services Securityholders in relation to the Proposal outlined in the Securityholder Booklet. This report has been prepared for inclusion in the Securityholder Booklet and abbreviations and defined terms used in this report have the same meaning as they do therein. All legislative references in this report are to the *Income Tax Assessment Act 1997 (Cth)*.

For information about the income tax considerations relevant to Securityholders in Singapore, please refer to section 5 of this Securityholder Booklet.

1. Limited scope of this report

This report applies to Securityholders who are either Australian tax residents or non tax residents who hold their AusNet Services Stapled Securities on capital account. This report does not consider the tax consequences for Securityholders who hold their AusNet Services Stapled Securities on revenue account or as trading stock, or who are exempt from Australian income tax, or who are subject to the Taxation of Financial Arrangements (TOFA) rules in Division 230 in relation to the gains and losses on their AusNet Services Stapled Securities.

This report is general in nature and is not intended to be an authoritative or complete statement of the relevant law or taxation consequences that flow. This report is not intended to consider the specific objectives, situation or needs of each Securityholder, which can affect the tax consequences of the Proposal. Securityholders should not rely only on this summary and should seek appropriate independent professional advice that considers the taxation implications in respect of their own particular circumstances.

2. Class Ruling Request

AusNet Services has applied for a class ruling from the Australian Taxation Office (ATO) on behalf of Australian tax resident Securityholders regarding the income tax treatment of the Proposal. The class ruling will apply to Securityholders that hold the AusNet Services Stapled Securities on capital account for tax purposes only.

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No assurance can be given to Securityholders that a favourable final class ruling will be received. We expect that the final class ruling will be issued shortly after the Implementation Date if the Proposal proceeds.

AusNet Services will make an ASX announcement when the class ruling is published. A link to the class ruling will be provided on the AusNet Services website: www.ausnetservices.com.au/investors

3. Taxation treatment for Eligible Securityholders

3.1 Destapling of AusNet Services Stapled Securities

In order to implement the Proposal, the AusNet Services Stapled Securities will be destapled. Following the destapling, each AusNet Services Stapled Security will be broken into the following:

- 1 AusNet Transmission Share;
- 1 AusNet Trust Unit; and
- 1 AusNet Distribution Share.

No change in ownership of AusNet Services or the AusNet Services Stapled Securities will occur as a result of the destapling. As such, the destapling should not result in any Australian capital gains consequences for Securityholders.

3.2 Exchange of AusNet Transmission Shares for AusNet Services Shares

As part of the Proposal, Securityholders will transfer their AusNet Transmission Shares to AusNet Services Limited and in exchange AusNet Services Limited will issue 1 AusNet Services Share for each AusNet Transmission Share transferred.

3.2.1 Australian tax resident Securityholders

Ordinarily, the disposal of shares by Australian tax resident Securityholders who hold their securities on capital account would result in a capital gain or loss being realised.

Under the Proposal, any such capital gain or loss made by Securityholders on disposal of their AusNet Transmission Shares for AusNet Services Shares should be automatically disregarded. This is because roll-over relief under Division 615 should automatically apply to defer recognition of any taxable gains or losses until a subsequent disposal of the AusNet Services Shares.

Following the Proposal, the first element of cost base (or reduced cost base, if applicable) for the AusNet Services Shares received by a Securityholder under the Proposal should be equal to the cost base (or reduced cost base) of the AusNet Transmission Shares disposed of.

For the purposes of determining whether the capital gains tax discount concession is available on a subsequent disposal of the AusNet Services Shares, relevant Securityholders (refer section 3.7 below) should be taken to have acquired their AusNet Services Shares at the time their AusNet Transmission Shares were originally acquired (as part of the acquisition of AusNet Services Stapled Securities).

3.2.2 Non tax resident Securityholders

Securityholders who are not Australian tax residents need to consider both the Australian income tax implications and the tax implications in their own jurisdiction. This report does not consider any taxation implications that might arise in jurisdictions other than Australia. Such Securityholders should seek their own advice on the consequences of the Proposal under any relevant foreign tax laws.

Broadly, if a capital gain or loss arises for a non tax resident as a result of the exchange of their AusNet Transmission Shares for AusNet Services Shares, roll-over relief should be available to disregard any capital gain or loss.

Following the Proposal, the first element of cost base (or reduced cost base, if applicable) for the AusNet Services Shares received by a non tax resident Securityholder under the Proposal should be equal to the cost base (or reduced cost base) of the AusNet Transmission Shares that were disposed of.

3.3 Exchange of AusNet Trust Units for AusNet Services Shares

As part of the Proposal, Securityholders will transfer their AusNet Trust Units to AusNet Services Limited and in exchange AusNet Services Limited will issue 1 AusNet Services Share for each AusNet Trust Unit transferred.

3.3.1 Australian tax resident Securityholders

Ordinarily, the disposal of units by Australian tax resident Securityholders who hold their units on capital account would result in a capital gain or loss being realised.

Under the Proposal, any such capital gain or loss made by Securityholders on disposal of their AusNet Trust Units for AusNet Services Shares may be disregarded at the election of the Securityholder. This is because roll-over relief under Division 615 should be available to defer recognition of any taxable gains or losses until a subsequent disposal of the AusNet Services Shares. For rollover to apply, a Securityholder must choose to apply rollover.

Securityholders who wish to choose to obtain rollover do not need to lodge any written election – generally the choice is demonstrated by not including a capital gain or loss in respect of the exchange in their tax return.

Following the Proposal, the first element of cost base (or reduced cost base, if applicable) for the AusNet Services Shares received by a Securityholder under the Proposal should be equal to the cost base (or reduced cost base) of the AusNet Trust Units disposed of. The cost base (or reduced cost base) for the AusNet Services Shares will reflect the impact of any previous tax deferred returns of capital received by the Securityholder in relation to their AusNet Trust Units.

For the purposes of determining whether the capital gains tax discount concession is available on a subsequent disposal of the AusNet Services Shares, relevant Securityholders (refer section 3.7 below) should be taken to have acquired their AusNet Services Shares at the time that their AusNet Trust Units were originally acquired (as part of the acquisition of AusNet Services Stapled Securities).

3.3.2 Non tax resident Securityholders

Securityholders who are not Australian tax residents need to consider both Australian income tax implications and the tax implications in their own jurisdiction. This report does not consider any taxation implications that might arise in jurisdictions other than Australia. Such Securityholders should seek their own advice on the consequences of the Proposal under any relevant foreign tax laws.

Broadly, if a capital gain or loss arises for a non tax resident as a result of the exchange of their AusNet Trust Units for AusNet Services Shares, roll-over relief should be available to disregard any capital gain or loss.

Following the Proposal, the first element of cost base (or reduced cost base, if applicable) for the AusNet Services Shares received by a non tax resident Securityholder under the Proposal should be equal to the cost base (or reduced cost base) of the AusNet Trust Units that were disposed of.

3.4 Exchange of AusNet Distribution Shares for AusNet Services Shares

As part of the Proposal, Securityholders will transfer their AusNet Distribution Shares to AusNet Services Limited and in exchange AusNet Services Limited will issue 1 AusNet Services Share for each AusNet Distribution Share transferred.

3.4.1 Australian tax resident Securityholders

Ordinarily, the disposal of shares by Australian tax resident securityholders who hold their securities on capital account would result in a capital gain or loss being realised.

Under the Proposal, any such capital gain or loss made by Securityholders on disposal of AusNet Distribution Shares for AusNet Services Shares may be disregarded at the election of the Securityholder. This is because roll-over relief under Division 615 or Subdivision 124-M should be available to defer recognition of any taxable gains or losses until a subsequent disposal of the AusNet Services Shares. For rollover to apply, a Securityholder must choose to apply rollover.

Securityholders who wish to choose to obtain rollover do not need to lodge any written election – the choice is demonstrated by not including a capital gain or loss in respect of the exchange in their tax return.

Following the exchange, the first element of cost base (or reduced cost base, if applicable) for the AusNet Services Shares received by a Securityholder under the Proposal should be equal to the cost base (or reduced cost base) of the AusNet Distribution Shares that were disposed of.

For the purposes of determining whether the capital gains tax discount concession is available on a subsequent disposal of the AusNet Services Shares, relevant Securityholders (refer section 3.7 below) should be taken to have acquired their AusNet Services Shares at the time their AusNet Distribution Shares were originally acquired (as part of the acquisition of AusNet Services Stapled Securities).

3.4.2 Non tax resident Securityholders

Securityholders who are not Australian tax residents need to consider both the Australian income tax implications and the tax implications in their own jurisdiction. This report does not consider any taxation implications that might arise in jurisdictions other than Australia. Such Securityholders should seek their own advice on the consequences of the Proposal under any relevant foreign tax laws.

Broadly, if a capital gain or loss arises for a non tax resident as a result of the exchange of their AusNet Distribution Shares for AusNet Services Shares, roll-over relief should be available to disregard any capital gain or loss.

Following the exchange, the first element of cost base (or reduced cost base, if applicable) for the AusNet Services Shares received by a non tax resident Securityholder under the Proposal should be equal to the cost base (or reduced cost base) of the AusNet Distribution Shares that were disposed of.

3.5 Consolidation of AusNet Services Shares received by Securityholders

As part of the Proposal, AusNet Services Limited will undertake a share consolidation such that the 3 AusNet Services Shares received under the steps described above will be consolidated into 1 AusNet Services Share. Following the consolidation, each Securityholder will hold 1 AusNet Services Share for each AusNet Services Stapled Security held by them prior to the Proposal. The share consolidation should not result in any Australian capital gains tax consequences arising for Securityholders.

Following the share consolidation, the cost base (or reduced cost base, if applicable) for each consolidated AusNet Services Share should be equal to the sum of the cost bases (or reduced cost bases) of the 3 AusNet Services Shares. For Securityholders who have elected for rollover in the manner outlined at 3.3 and 3.4, the cost base for each consolidated AusNet Services Share will be equal to their cost base for the AusNet Stapled Security previously held.

3.6 Tax treatment of future distributions

3.6.1 Australian tax resident Securityholders

Generally, dividends received from AusNet Services Limited should be included in a Securityholder's assessable income together with any franking credit attached to the dividend. Where the franking credit is included in the Securityholder's assessable income, the Securityholder will generally be entitled to a corresponding tax offset.

To be eligible for the franking credit and tax offset, Securityholders must have held the AusNet Services Shares at risk for a period of at least 45 days (not including the date of acquisition or the date of disposal) and free of any related payment obligations. A Securityholder will not be taken to have held AusNet Services Shares at risk where the Securityholder or an associate holds a position (such as an option or other hedging arrangement) which materially diminishes the risks of loss or opportunity for gain in respect of those AusNet Services Shares.

The holding period rule will not apply to a Securityholder who is an individual whose tax offset entitlement (for all franked distributions received in the income year) does not exceed \$5,000 for the income year in which the franked dividend from AusNet Services Limited is received.

Where the Securityholder is an Australian tax resident individual, complying superannuation entity, or registered charity (in certain circumstances) and satisfies the above requirements, the Securityholder will generally be entitled to a refund of tax to the extent that the franking credit attached to the Securityholder's dividends exceeds the Securityholder's income tax liability for the relevant income year.

Where the Securityholder is an Australian tax resident company, franked dividends received by the Securityholder will generally give rise to a franking credit in the Securityholder's franking account. No refund of tax is available for companies for excess franking credits.

3.6.2 Non tax resident Securityholders

Franked dividends received by non tax resident Securityholders should generally be exempt from dividend withholding tax.

Unfranked dividends will be subject to dividend withholding tax. The withholding tax rate is 30% but is generally reduced to 15% (or lower under certain tax treaties) for dividends paid to residents of countries with which Australia has entered into a tax treaty. The applicable dividend withholding tax rate will depend on the tax treaty relevant to the non tax resident Securityholder. The dividend withholding tax represents a final tax liability for non tax resident Securityholders (i.e. there is no further tax on an assessment basis in respect of these dividends in Australia).

Securityholders are advised to obtain their own tax advice based on their specific circumstances to confirm that they are entitled to the benefit of any franking credit gross-up and tax offset in respect of franked dividends paid by AusNet Services Limited.

3.7 Tax treatment of future disposals of AusNet Services Shares

3.7.1 Australian tax resident Securityholders

Following the implementation of the Proposal, Securityholders who dispose of their AusNet Services Shares will make:

- A capital gain if the capital proceeds exceed the cost base of the relevant AusNet Services Share; or
- A capital loss if the capital proceeds are less than the reduced cost base of the relevant AusNet Services Share.

Securityholders who are individuals, trustees or complying superannuation entities and who have held their AusNet Services Shares for at least 12 months, including the period that the corresponding AusNet Services Stapled Securities were held, should be entitled to discount the amount of the capital gain (after the application of any current year or carry forward capital losses).

The amount of the discount is:

- In the case of individuals and trustees – 50%; and
- For complying superannuation funds – 33.33%.

No discount on a capital gain is available for Securityholders that are companies.

A capital loss may be used to offset any capital gains derived by relevant Securityholders for the relevant income year or may be carried forward to offset capital gains in future income years. Specific capital loss recoupment rules apply to companies to restrict their ability to utilise capital losses in future income years. Securityholders should seek their own tax advice prior to utilising capital losses to confirm the availability of the losses.

3.7.2 Non tax resident Securityholders

Securityholders who are not Australian tax residents need to consider both Australian income tax implications and the tax implications in their own jurisdiction. This report does not consider any taxation implications that might arise in jurisdictions other than Australia. Such Securityholders should seek their own advice on the consequences of the Proposal under any relevant foreign tax laws.

Broadly, a capital gain or loss may arise to non tax resident Securityholders from the disposal of their AusNet Services Shares if they hold their securities on capital account, and:

- they held more than 10% of the issued capital of AusNet Services Limited at the date of the disposal of the securities or through a 12 month period that began no earlier than 24 months before the date of disposal and ended no later than the date of disposal; and
- more than 50% of the market value of AusNet Services Limited consists of taxable Australian real property (direct and indirect interests in Australian real property, including leases of Australian land).

A capital gain may also arise for non tax resident Securityholders if they have held their AusNet Services Shares or the corresponding AusNet Services Stapled Securities in the course of carrying on a business through an Australian permanent establishment.

If the non tax resident Securityholder is a tax resident of a country in which a tax treaty exists with Australia, relief may be available under the relevant treaty. Non tax resident Securityholders should seek their own advice in relation to the availability of treaty relief.

No discount capital gain is available for non tax resident Securityholders.

4. Taxation treatment for Ineligible Foreign Securityholders

As detailed in the Securityholder Booklet, a small number of AusNet Services Stapled Securities are held by Securityholders in foreign jurisdictions who are ineligible to participate in the Proposal (referred to as Ineligible Foreign Securityholders). Ineligible Foreign Securityholders will not participate in the Proposal but instead have their AusNet Services Stapled Securities transferred to the Sale Nominee. Following implementation of the Proposal, the Sale Nominee will sell the AusNet Services Shares it then holds and remit the proceeds of the sale to the Ineligible Foreign Securityholders.

Ineligible Foreign Securityholders need to consider both Australian income tax implications and the tax implications in their own jurisdiction. This report does not consider any taxation implications that might arise in jurisdictions other than Australia. Ineligible Foreign Securityholders should seek their own advice on the consequences of the Proposal under any relevant foreign tax laws.

Broadly, a capital gain or loss should not arise to Ineligible Foreign Securityholders from the disposal of their securities unless they have held their securities in the course of carrying on a business through an Australian permanent establishment.

If an Ineligible Foreign Securityholder does derive a capital gain and is a tax resident of a country in which a tax treaty exists with Australia, relief may be available under the relevant treaty. Relevant Ineligible Foreign Securityholders should seek their own advice in relation to the availability of treaty relief.

No discount capital gain is available for Ineligible Foreign Securityholders.

5. Disclaimer

This report is based solely on:

- a) the representations, information, documents, and facts that we have included or referred to in this report;
- b) an assumption that all of the representations, information and facts set out in the Securityholder Booklet are accurate and not misleading;
- c) an assumption that there will be timely execution, delivery and performance as required by the Securityholder Booklet;
- d) the law, regulations, cases rulings, and other tax authorities in effect as of the date of this report. If there are any significant changes in or to these tax authorities (for which we shall have no responsibility to advise you), such changes may result in our opinion being rendered incorrect or necessitate (on your request) a reconsideration of the opinion. Except where expressly mentioned, we have not considered proposed reforms or legislation that has not been enacted; and

- e) your understanding that this report is not binding on the ATO or the courts and should not be considered a representation, warranty, or guarantee that the ATO or the courts will concur with our conclusions.

The representatives of Deloitte Lawyers involved in preparing this report are not licenced to provide financial product advice as defined by the Corporations Act. You may consider seeking advice from an Australian financial services license holder before making any decision in relation to a financial product. You should also note that taxation is only one of the matters that you need to consider when making a decision on a financial product.

* * * * *

Yours sincerely



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Our Ref: 7316/4887YHY/SG

22 April 2015

The Board of Directors
AusNet Services (Distribution) Ltd
AusNet Services (Transmission) Ltd
AusNet Services (RE) Ltd as Responsible Entity of AusNet Services Finance Trust
AusNet Services Ltd
Level 31, 2 Southbank Boulevard
Southbank VIC 3006
Australia

Attention: The Board of Directors

AUSNET SERVICES PROPOSED RESTRUCTURE: SINGAPORE TAXATION REPORT

We have been requested to comment on the Singapore tax considerations for AusNet Services Securityholders in relation to the Proposal that is outlined in the Securityholder Booklet. This report has been prepared for inclusion in the Securityholder Booklet and is applicable only to residents for Singapore income tax purposes only (**Singapore tax residents**). Abbreviations and defined terms used in this report have the same meaning as they do in the Securityholder Booklet.

1. Limited scope of this report

This report only applies to Securityholders who are Singapore tax residents. This report does not consider the tax consequences to Securityholders who are not Singapore tax residents. This report does not consider Singapore goods and services tax or stamp duty implications pertaining to the Proposal.

This report is general and is not an authoritative or complete statement of the relevant Singapore income tax law or corollary Singapore income taxation consequences that flow. This report does not consider the specific objectives, situation or needs of each Securityholder, which can affect the taxation impact of the Proposal. Securityholders should not rely on this summary and they should seek appropriate independent professional advice that considers the Singapore taxation implications of their own specific circumstances concerning the Proposal.

2. Overview of Singapore income tax

2.1. Individual income tax

An individual is a tax resident in Singapore in a year of assessment (otherwise considered as a tax year) if, in the preceding year, they were physically present in Singapore or exercised an employment in Singapore (other than as a director of a company) for 183 days or more, or if they ordinarily reside in Singapore.

A Singapore tax resident individual is subject to Singapore income tax on income accruing in or derived from Singapore. All foreign-sourced income received in Singapore and certain Singapore sourced investment income from financial instruments derived by a Singapore tax resident individual (except for income received through a partnership in Singapore or derived from the carrying on of a trade or business in Singapore) are exempt from Singapore income tax.

A Singapore tax resident individual is taxed at progressive rates ranging from 0% to 20%. The Government announced on 23 February 2015 in its 2015 Singapore Budget that (a) Singapore tax resident individuals will be given a one-off personal income tax rebate of 50%, capped at S\$1,000 in the year of assessment 2015, and (b) the top marginal rate for a Singapore tax resident individual be increased to 22% from the year of assessment 2017: income derived from 1 January 2016.

2.2. Corporate income tax

A company is a resident for Singapore income tax purposes if the control and management of its business are exercised in Singapore; the place of its incorporation is not relevant.

A Singapore tax resident company is subject to Singapore income tax on all income accruing in or derived from sources in Singapore and on foreign-sourced income if received or deemed received in Singapore, subject to certain exceptions. Income will be considered to be received, or deemed to be received in Singapore from outside Singapore in respect of a year of assessment when:

- i) it is remitted to, transmitted or brought into Singapore; or
- ii) it is used to satisfy a debt incurred in respect of a trade or business carried on in Singapore; or
- iii) it is used to purchase movable property which is brought into Singapore: Section 10(25) of the *Income Tax Act* (Chapter 134 of Singapore) (**SITA**).

Foreign-sourced income in the form of dividends, branch profits and service income (which are referred to as “specified foreign income”) received or deemed to be received in Singapore either by a Singapore tax resident company or a Singapore tax resident individual through a partnership in Singapore are exempt from Singapore income tax if all of the following prescribed conditions for Section 13(8) of the SITA exemption are met:

- i) such income is subject to tax of a similar character to income tax under the law of the jurisdiction from which such income is received;
- ii) at the time the income is received in Singapore, the highest rate of tax of a similar character to income tax (by whatever name called) levied under the law of the territory from which the income is received on any gains or profits from any trade or business carried on by any company in that territory at that time is not less than 15%; and

- iii) the Singapore Comptroller of Income Tax is satisfied that the tax exemption would be beneficial to the Singapore resident.

For remittances of any specified foreign income that does not meet the prescribed conditions, a Singapore tax resident company may be granted tax exemption under specific scenarios or circumstances upon application to and if approved by Singapore Comptroller of Income Tax.

The standard corporate income tax rate in Singapore is currently 17%. Corporate tax partial exemption will apply to the first S\$300,000 of a company's normal chargeable income as follows:

- i) 75% of up to the first S\$10,000 of a company's normal chargeable income; and
- ii) 50% of the next S\$290,000 of a company's normal chargeable income.

The remaining chargeable income (after the tax exemption) will be fully taxable at the prevailing standard tax rate of 17%. A corporate income tax rebate of 30% of the corporate income tax payable that is capped at S\$30,000 per year of assessment will be available to the company from the year of assessment 2013 to 2015. The Government announced in its 2015 Singapore Budget that the 30% corporate income tax rebate will be extended for another two years of assessment (till the year of assessment 2017), with the cap reduced to S\$20,000 per year of assessment.

3. Singapore taxation treatment of the Proposal for Singapore tax resident Securityholders

3.1. De-stapling of AusNet Services Stapled Securities

The de-stapling of the existing AusNet Services Stapled Securities does not cause any change in the ownership of the AusNet Services Stapled Securities. As such, the de-stapling per se should not be considered as a disposal by the Singapore tax resident Securityholders and should not result in any Singapore income tax consequences to the Singapore tax resident Securityholders.

3.2. Exchange of AusNet Services Transmission Shares, AusNet Services Trust Units and AusNet Services Distribution Shares for NewCo Shares

Singapore does not tax gains that are capital in nature or otherwise referred to as capital gains. Only gains that are revenue or income in nature, which are sourced in Singapore or if sourced from outside Singapore and if received or deemed received in Singapore, are subject to income tax in Singapore, unless they are specifically exempt.

Securityholders whose AusNet Services Stapled Securities are determined to be on capital account, and any profit arising is also determined to be capital in nature, will not be subject to taxation in Singapore on any gain resulting from the exchange of AusNet Services Transmission Shares, AusNet Services Trust Units and AusNet Services Distribution Shares for NewCo Shares.

There is no specific Singapore tax law or regulations which deal with the characterisation of whether a gain is income or capital in nature. The determination of whether a gain is capital or revenue in nature for Singapore tax purposes is based on a consideration of established principles from decided tax law cases on the facts and circumstances of each case.

In certain circumstances, the Inland Revenue Authority of Singapore (**IRAS**) can consider transactions involving the acquisition and disposal of real estate, stocks or shares to be the carrying on of a trade or dealing in investments, and, as a result, gains arising from such transactions to be income in nature, and subject to tax.

Gains, if any, arising to a Singapore tax resident Securityholder from the transfer (disposal) of their AusNet Services Transmission Shares, AusNet Services Trust Units and AusNet Services Distribution Shares in exchange for NewCo Shares under the Proposal may be construed to be of an income nature and subject to Singapore income tax.

Singapore tax resident corporate Securityholders who hold at least 20% of the ordinary shares in a company may be able to rely on the “20-24” safe harbor rule for non-taxation of gains on disposal of equity investments. Gains derived from the disposal of ordinary shares in an investee company from 1 June 2012 to 31 May 2017 are not taxable in Singapore if,

- immediately prior to the date of the share disposal, the Singapore tax resident corporate Securityholder (the divesting company) had held at least 20% of the ordinary shares in the investee company; and
- had held them for a continuous period of at least 24 months: Section 13Z of SITA.

This safe harbor rule does not apply to a divesting company which is in a business of insurance whose gains or profits from the disposal of shares are included as part of its income based on the provisions of Section 26 of SITA, or disposal of shares in an unlisted investee company that is in the business of trading or holding Singapore immovable properties (other than the business of property development). The safe harbor rule would also not apply to gains, if any, derived by a Singapore tax resident corporate Securityholder from the disposal of its AusNet Services Trust Units because the AusNet Services Trust Units are not ordinary shares.

3.3. Consolidation of the NewCo Shares received by the Securityholders

The proposed consolidation of NewCo Shares with no change to the legal ownership (and also beneficial ownership) should not result in any Singapore income tax consequences to the Singapore tax resident Securityholders.

4. Income tax treatment of future distributions

For Singapore income tax purposes, dividends are considered sourced in the country where the company paying the dividends is tax resident.

As NewCo, the dividend paying company is not a resident for Singapore tax purposes, any dividend from NewCo to the Singapore tax resident corporate Securityholders should be considered foreign sourced.

All foreign-sourced income received in Singapore on or after 1 January 2004 by a Singapore tax resident individual (except for income received through a partnership in Singapore or derived from the carrying on of a trade or business in Singapore) is exempt from Singapore income tax.

If any NewCo dividends are received or deemed received in Singapore by Singapore tax resident companies or Singapore tax resident individuals through a partnership in Singapore, they would be specifically tax exempt under Section 13(8) of the SITA, if the conditions for the Section 13(8) tax exemption are met: please refer to section 2.2.

Section 10(25) of the SITA provides that income will be considered to be received, or deemed received, in Singapore from outside Singapore whether or not the source from which the income is derived has ceased, where:

- i) it is remitted to, transmitted or brought into Singapore; or
- ii) it is used to satisfy a debt incurred in respect of a trade or business carried on in Singapore;
or
- iii) it is used to purchase movable property which is brought into Singapore.

A Singapore tax resident corporate Securityholder in receipt of dividends from NewCo who is unable to meet the conditions for the Section 13(8) tax exemption of the SITA may still be able to remit the dividends free from Singapore income tax if they obtain a Section 13(12) tax exemption. Securityholders who wish to obtain this exemption must apply to the IRAS. The exemption only applies to certain specified foreign income under specific scenarios and is subject to several qualifying conditions.

5. Income tax treatment of future disposals of NewCo Shares

Following the implementation of the Proposal, gains arising from the future disposals of NewCo Shares will not be subject to tax if they are determined to be held on capital account and any profit arising is also determined to be capital in nature.

Notwithstanding this, gains may be construed to be of an income nature and subject to Singapore income tax if they arise from activities which are regarded by the IRAS as the carrying on of a trade or business and the gains are sourced in Singapore.

There is no specific Singapore tax law or regulations which deal with the characterisation of whether a gain is income or capital in nature. The determination of whether a gain is capital or revenue in nature which is corollary taxable for Singapore tax purposes will be based on a consideration of established principles from decided tax law cases on the facts and circumstances of each case.

If the gain is income in nature, a Singapore tax resident corporate Securityholder who holds at least 20% of the ordinary shares in a company may be able to rely on the “20-24” safe harbor rule for non-taxation of gains on disposal of equity investments. Please refer to section 3.2.

A disposal of NewCo Shares before the 24th month anniversary opens the determination of whether such gains are taxable will be based on a consideration of the facts and circumstances of each case. For avoidance of doubt, the requirement is that the holder needs to hold at least 20% of the total ordinary shares in the company for 24 months.

Securityholders who adopt their Singapore tax treatment to be aligned with the Singapore Financial Reporting Standard (FRS) 39 may be taxed on gains (not being gains in the nature of capital) even though there was no sale or disposal of NewCo Shares. Securityholders who may be subject to such tax treatment should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their disposal of NewCo Shares.



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22 April 2015
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6. Disclaimer

This report is based solely on:

- a. the representations, information, documents, and facts that we have included or referred to in this report;
- b. an assumption that all of the representations, information and facts set out in the Securityholder Booklet are accurate and not misleading;
- c. an assumption that there will be timely execution, delivery and performance as required by the Securityholder Booklet;
- d. the law, regulations, cases rulings, and other tax authorities in effect in Singapore as of the date of this report. If there are any significant changes in or to these tax authorities (for which we shall have no responsibility to advise you), such changes may result in our opinion being rendered incorrect or necessitate (on your request) a reconsideration of the opinion. Except where expressly mentioned, we have not considered proposed reforms or legislation that has not been enacted; and
- e. your understanding that this report is not binding on the IRAS or the courts and should not be considered a representation, warranty, or guarantee that the IRAS or the courts will concur with our conclusions.

Yours faithfully

Steven Yap
Tax Partner

6 Details about the Proposal and Securityholder approvals

6.1 Implementation mechanics

The exchange of AusNet Services Stapled Securities for NewCo Shares will occur under the Schemes in the order specified below. There are separate Schemes for each AusNet Services entity:

- > The AusNet Services Transmission Scheme under which Eligible Securityholders will receive 1 NewCo Share for each AusNet Services Transmission Share they hold
- > The Trust Scheme under which Eligible Securityholders will receive 1 NewCo Share for each AusNet Services Trust Unit they hold
- > The AusNet Services Distribution Scheme under which Eligible Securityholders will receive 1 NewCo Share for each AusNet Services Distribution Share they hold.

Under each of the Schemes, the respective shares and units of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Trust will be transferred from Eligible Securityholders to NewCo so that NewCo will become the sole holder of those securities.

Immediately following the implementation of the Schemes, the number of NewCo Shares held by Securityholders will be consolidated so that Securityholders will hold one NewCo Share for each AusNet Services Stapled Security they held before.

NewCo is currently an indirect wholly owned subsidiary of AusNet Services Distribution. No NewCo Shares have been sold since NewCo's incorporation. At the time of issue of the NewCo Shares to Securityholders under the Schemes, the existing NewCo Shares will automatically be cancelled.

Securityholders should be aware that, pursuant to the Schemes each Securityholder on the Record Date will be deemed to have warranted to AusNet Services and, in the case of Ineligible Foreign Securityholders, to the Sale Nominee that their AusNet Services Stapled Securities are not subject to any encumbrances or interests of third parties and that they have full power and capacity to sell and transfer such AusNet Services Stapled Securities.

6.2 Conditions and termination rights

The Proposal is subject to a number of conditions precedent which remain outstanding. The status of these conditions precedent is set out below:

Condition precedent	Status
Securityholder approval: AusNet Services Securityholders approve each of the Resolutions at the Meetings before the Second Court Hearing with the requisite majority. The requisite majority for the approval of the Company Schemes is 75% of the votes cast and a majority in number of the Securityholders voting	The Meetings to consider the Resolutions will be held on Friday, 29 May 2015 as described in this Securityholder Booklet.
Court approval: the Court makes orders to approve the Company Schemes under section 411(4)(b) of the Corporations Act at the Second Court Hearing	Court approval of the Company Schemes will be sought at the Second Court Hearing.
Judicial advice: AusNet Services Trustee obtains judicial advice from the Court that it would be justified in implementing the Proposal	The advice of the Court will be sought at the Second Court Hearing.
FIRB: the Treasurer has advised that there are no objections under Australia's foreign investment policy to the implementation of the Proposal (including with respect to NewCo, Singapore Power and State Grid)	NewCo has obtained FIRB approval. AusNet Services expects that each of Singapore Power or State Grid will apply for FIRB approval in time for the Proposal to be implemented as set out in this Securityholder Booklet. At the date of this booklet, AusNet Services is not aware that application for FIRB approval has been made by or on behalf of Singapore Power or State Grid.
Regulatory: before the Second Court Hearing, ASIC, ASX, Monetary Authority of Singapore and any other relevant regulatory authorities provide such consents, approvals or declarations as AusNet Services believes are reasonably necessary or desirable to implement the Proposal	ASIC has agreed to grant the necessary relief to implement the Proposal. ASX has agreed to grant the necessary waivers and confirmations to implement the Proposal. Monetary Authority of Singapore has granted a declaration under section 273(5) of the Securities and Futures Act, Chapter 289 of Singapore (see section 7.15). There are no other outstanding regulatory approvals.
ASX listing: NewCo is admitted to the official list of ASX and NewCo Shares are quoted on ASX	NewCo will apply for admission to the official list of ASX and quotation of NewCo Shares on ASX within 7 days after the date of this Securityholder Booklet.
Injunction: there are no restraining orders, injunctions or other orders issued by any government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, bureau, tribunal, agency or entity in any part of the world and includes ASX, ASIC, ATO and Monetary Authority of Singapore preventing any aspect of the Proposal	AusNet Services is not aware of any such orders or injunctions.

The Implementation Deed provides termination rights in certain limited cases where there is an alternative transaction which is superior to the Proposal or where the AusNet Services Directors determine that the Proposal is no longer in the best interests of Securityholders.

6.3 Sale Facility

The Sale Facility forms part of the Schemes. Under the Sale Facility:

- > AusNet Services Stapled Securities held by Ineligible Foreign Securityholders will be transferred to the Sale Nominee on or before the Implementation Date without the need for any further action by the Ineligible Foreign Securityholders.
- > the Sale Nominee will Participate in the Proposal in respect of those AusNet Services Stapled Securities in the same way as other AusNet Services Securityholders. After the implementation of the Proposal, the Sale Nominee will hold the NewCo Shares which would otherwise have been received by Ineligible Foreign Securityholders and receive the AusNet Services distribution for the second half of the financial year ending 31 March 2015 (see section 1.11).
- > as soon as is reasonably practicable after the Implementation Date (and in any event within 29 days of the commencement of normal settlement trading of NewCo Shares), the Sale Nominee will sell the NewCo Shares it holds. The sale will occur on market on the ASX in the ordinary course of trading.
- > no later than 7 Business Days after the day on which the last of the proceeds of sale of all of the NewCo Shares are received, the sale proceeds, together with an amount representing the distribution payment received, will be paid to Ineligible Foreign Securityholders by cheque or bank draft or electronic funds transfer into a bank account nominated by the Ineligible Foreign Securityholder for the amount due to each Ineligible Foreign Securityholder together with a statement of how the amount is calculated. That amount will be paid in Australian dollars (or Singapore dollars in the case of ineligible CDP Account Holders (see section 6.4)).

Determination of sale proceeds

Each Ineligible Foreign Securityholder will participate in the Sale Facility and receive an amount equal to the average price per NewCo Share at which the Sale Nominee sold the NewCo Shares under the Sale Facility plus the amount of the AusNet Services distribution for the second half of the financial year ending 31 March 2015, multiplied by the number of NewCo Shares to which the Ineligible Foreign Securityholder would otherwise have been entitled under the Proposal.

AusNet Services will bear any costs, fees or taxes payable by the Sale Nominee.

The sale price of NewCo Shares and the proceeds that the Ineligible Foreign Securityholder will receive cannot be guaranteed as the market price of NewCo Shares is subject to change from time to time. The sale proceeds will not necessarily be the highest price at which the NewCo Shares could be sold during the sale period. The Sale Nominee will sell the NewCo Shares in such manner, at such prices and as the Sale Nominee determines in good faith with the objective of achieving the best prices reasonably obtainable at the time of the sales. Factors that may influence the price that may be obtained include:

- > the total number of NewCo Shares that participate in the Sale Facility. If a large number of NewCo Shares participate in the Sale Facility, the sale price for those NewCo Shares may be lower if the Sale Facility increases the supply of NewCo Shares available for sale without there being corresponding demand for the acquisition of NewCo Shares during the relevant period
- > the prevailing market conditions, including the prevailing price of NewCo Shares on ASX and the prevailing demand for those shares, and
- > the period during which the sale process is undertaken.

Alternatives to participating in Sale Facility

As an alternative to participating in the Sale Facility, AusNet Services Securityholders who expect to be Ineligible Foreign Securityholders may choose to sell their AusNet Services Stapled Securities on market by the last day of trading of AusNet Services Stapled Securities (expected to be Friday, 5 June 2015, being the Effective Date). There are a number of differences between selling AusNet Services Stapled Securities on market and participating in the Sale Facility, including:

- > the price may be higher or lower
- > under the Sale Facility, Ineligible Foreign Securityholders have no control over the sale proceeds they will receive
- > Ineligible Foreign Securityholders will need to wait until after the Sale Facility process is completed before they receive the sale proceeds
- > transfers and sales under the Sale Facility will only proceed if the Proposal is implemented, and
- > Ineligible Foreign Securityholders will need to pay brokerage fees if they sell AusNet Services Stapled Securities on market.

6.4 Participation in the Proposal by CDP Account Holders

For AusNet Services Stapled Securities trading on the SGX-ST, the CDP Account Holders do not hold the AusNet Services Stapled Securities directly but through CDP. Accordingly, CDP Account Holders do not participate directly in the Proposal, but only through CDP as the registered Securityholder. CDP's entitlement to Participate in the Proposal will be determined based on whether a CDP Account Holder would be eligible to Participate, and the number of AusNet Services Stapled Securities in respect of which the CDP Account Holder is eligible to Participate, had the CDP Account Holder held the AusNet Services Stapled Securities directly rather than through CDP.

For example, a CDP Account Holder with an address in, for example, Singapore would be able to Participate if they were a Securityholder and is therefore able to Participate through CDP. CDP would Participate in the Proposal in respect of the number of AusNet Services Stapled Securities attributed to that eligible CDP Account Holder in the same way as other Eligible Securityholders.

In contrast, a CDP Account Holder with an address in, for example, Thailand would not be able to Participate. The number of AusNet Services Stapled Securities held by CDP attributed to that ineligible CDP Account Holder would be transferred to the Sale Nominee and the corresponding NewCo Shares would be sold on the ASX through the Sale Facility. AusNet Services will make the necessary arrangements to convert the sale proceeds in Australian dollars to Singapore dollars, in such manner as determined by the AusNet Services Directors at their sole discretion, to pay the proportionate sale proceeds attributed to the ineligible CDP Account Holders to CDP by Friday, 7 August 2015. When CDP receives the proportionate sale proceeds, it will in turn pay the relevant proportion to each ineligible CDP Account Holder in the same manner as distributions are currently paid to them. There may be a time lag between the sale of NewCo Shares on the ASX through the Sale Facility and the receipt by ineligible CDP Account Holders of their relevant proportion of sale proceeds.

If the Proposal is implemented, CDP will hold NewCo Shares for the benefit of eligible CDP Account Holders. The number of NewCo Shares CDP holds on account for each eligible CDP Account Holder will be the same as the number of AusNet Services Stapled Securities CDP previously held for that CDP Account Holder. A notification letter will be sent to all CDP Account Holders notifying them of their holding in NewCo Shares.

6.5 Approval of the Company Schemes – Scheme Resolutions

First Court Hearing

On 21 April 2015, the Court ordered that the Scheme Meetings be convened and that this Securityholder Booklet be despatched to AusNet Services Securityholders. The orders made by the Court do not constitute an endorsement of the Schemes or this Securityholder Booklet.

Scheme Resolutions

For the Company Schemes to take effect, section 411(4) of the Corporations Act requires meetings of AusNet Services Distribution Shareholders and AusNet Services Transmission Shareholders to be held, at which each of the Company Schemes must be approved by a resolution passed by a majority in number of Securityholders present and voting (either in person or by proxy) at the Scheme Meetings and representing in aggregate not less than 75% of the votes cast on the Scheme Resolutions at the Scheme Meetings.

The Scheme Resolutions are set out in the Notice of Scheme Meetings in Annexure F of this Securityholder Booklet. The result of the Scheme Meetings must then be provided to the Court, which will consider whether or not to approve the Company Schemes.

Second Court Hearing

Each of AusNet Services Distribution and AusNet Services Transmission will apply to the Court for an order approving the Company Schemes if the Scheme Resolutions are approved by the requisite majority of Securityholders at the Scheme Meetings.

The Court has a discretion as to whether to grant the orders approving the Company Schemes, even if the Schemes are approved by the requisite majority of Securityholders. Each Securityholder and, with the Court's permission, any other interested person has the right to appear at the Second Court Hearing. The Corporations Act and the *Supreme Court (Corporations) Rules 2013* (Vic) provide a procedure for Securityholders to oppose the approval by the Court of the Company Schemes.

If you wish to oppose the approval of the Company Schemes at the Second Court Hearing you may do so by filing with the Court and serving on AusNet Services Distribution and AusNet Services Transmission a notice of appearance in the form prescribed under the *Supreme Court (Corporations) Rules 2013* (Vic) together with any affidavit on which you wish to rely at the hearing. The notice of appearance and affidavit must be served on AusNet Services Distribution and AusNet Services Transmission at the following address for service at least one day before the Second Court Date: King & Wood Mallesons, 600 Bourke Street, Melbourne VIC 3000. With leave of the Court, you may also oppose the approval of the Company Schemes by appearing at the Second Court Hearing and applying to raise any objections you may have at the hearing. AusNet Services Distribution and AusNet Services Transmission should be notified in advance of an intention to object. The date for the Second Court Hearing is currently scheduled to be Thursday, 4 June 2015, though an earlier or later date may be sought. Any change to this date will be announced through ASX and notified on AusNet Services' website.

ASIC has also been given the opportunity to comment on this Securityholder Booklet in accordance with subsection 411(2) of the Corporations Act. ASIC has been requested to provide a statement, in accordance with subsection 411(17)(b) of the Corporations Act, that it has no objections to the Company Schemes. If ASIC provides that statement, it will be produced to the Court at the Second Court Hearing.

If the Company Schemes are approved by Securityholders at the Scheme Meetings and by the Court at the Second Court Hearing the Company Schemes will become formally Effective when a copy of the Court orders approving the Company Schemes is lodged with ASIC, or on such earlier date as the Court determines and specifies in the order.

6.6 Approval of amendments of the AusNet Services Trust Constitution

It is proposed that the AusNet Services Trust Constitution be amended to implement the Trust Scheme. These amendments will be effected by way of a special resolution of AusNet Services Securityholders (in their capacity as holders of AusNet Services Trust Units) and recorded in a supplemental deed which AusNet Services Trustee will execute and lodge with ASIC.

The AusNet Services Trust Constitution Amendments are set out at Annexure E of this Securityholder Booklet.

AusNet Services Trustee (as responsible entity of AusNet Services Trust) has applied to the Court for judicial advice and has received such advice confirming that:

- > AusNet Services Trustee would be justified in convening the General Meeting of AusNet Services Trust Unit Holders for the purposes of considering the relevant General Meetings Resolutions to implement the Proposal,
- > subject to approval of the General Meetings Resolutions, AusNet Services Trustee would be justified in proceeding on the basis that the AusNet Services Trust Constitution Amendments would be within its powers as trustee and responsible entity, including the powers of alteration conferred by the AusNet Services Trust Constitution and section 601GC of the Corporations Act.

At the Second Court Hearing, AusNet Services Trustee will seek judicial advice confirming that it would be justified in acting upon the General Meetings Resolutions, and that all costs and expenses incurred as trustee or responsible entity in relation to the judicial advice are payable or reimbursable out of the assets of AusNet Services Trust.

Any person who claims that his or her rights as an AusNet Services Trust Unit Holder will be prejudiced by the AusNet Services Trust Constitution Amendments may, at the Second Court Hearing, apply to the Court for such orders or directions as the circumstances may require.

The proposed new AusNet Services Trust Constitution and supplemental deed are available for inspection at the offices of AusNet Services at Level 31, 2 Southbank Boulevard, Southbank, Victoria 3006 between 9.00am and 5.00pm on Business Days. A copy of these documents will also be made available on request free of charge by calling the AusNet Services Securityholder Information Line on 1300 723 186 (within Australia) or on +61 3 9415 4275 (outside Australia) at any time from 8.30am to 5.00pm (Melbourne time) Monday to Friday.

6.7 Approval of the destapling of AusNet Services Stapled Securities

The shares in each of AusNet Services Distribution, AusNet Services Transmission and units in AusNet Services Trust are currently stapled together so that they cannot be dealt with individually. In order to implement the Proposal, it is necessary to destaple the AusNet Services Stapled Securities prior to their transfer to NewCo under the Schemes.

The AusNet Services stapling deed and the constitutions of each of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Trust require that the approval of AusNet Services Securityholders by special resolution be obtained before destapling can occur.

6.8 Approval of the acquisition of units in AusNet Services Trust by NewCo

The acquisition by NewCo of all of the AusNet Services Trust Units under the Trust Scheme requires the approval of Securityholders (in their capacity as holders of AusNet Services Trust Units) by ordinary resolution under item 7 of section 611 of the Corporations Act (as amended by ASIC relief).

6.9 Entitlement to vote on the Proposal and voting exclusions

Approval thresholds

The approval thresholds for each of the Resolutions are as follows:

- > the Scheme Resolutions will be passed only if they are each passed by a majority in number of Securityholders who voted and 75% of the votes cast by Securityholders entitled to vote
- > the resolutions approving the AusNet Services Trust Constitution Amendments and the destapling of AusNet Services Stapled Securities will be passed as special resolutions only if in each case they have been passed by at least 75% of the votes cast by Securityholders entitled to vote
- > the resolution approving the acquisition by NewCo of all of the AusNet Services Trust Units under the Trust Scheme for the purposes of item 7 of section 611 of the Corporations Act will be passed as an ordinary resolution only if it has been passed by at least 50% of the votes cast by the Securityholders entitled to vote.

Each AusNet Services Securityholder who is registered on the Register at 7.00pm on Wednesday, 27 May 2015 is entitled to attend and vote, either in person or by proxy, at the Meetings.

Voting by poll

Each Resolution proposed at the Meetings will be decided by way of a poll. On a poll for:

- > AusNet Services Distribution, each Securityholder has one vote for every AusNet Services Distribution Share held
- > AusNet Services Transmission, each Securityholder has one vote for every AusNet Services Transmission Share held
- > AusNet Services Trust, each Securityholder has one vote for each dollar value of the total interest they have in AusNet Services Trust.

If you do not vote or vote against the Resolutions, but the Resolutions are approved by the required majority of Securityholders and all other conditions to the Proposal are either satisfied or waived, then the Proposal will be implemented and will be binding on all Securityholders.

Voting exclusions

Under section 253E of the Corporations Act, AusNet Services Trustee, the responsible entity of AusNet Services Trust, and its associates will not be entitled to vote on a Resolution of members of AusNet Services Trust if they have an interest in that Resolution or matter other than as a member. However, AusNet Services Trustee and its associates are entitled to vote as a proxy for another AusNet Services Securityholder, provided their appointment specifies the way it is to vote on the Resolution and they vote in that way.

Under item 7 of section 611 of the Corporations Act, persons who are proposing to sell their securities under the transaction that is to be approved (and their associates) are prohibited from voting on the Resolution. ASIC has granted relief from this restriction. However, NewCo and its associates are prohibited from voting on the Resolution.

AusNet Services Stapled Securities listed on SGX-ST and deposited with CDP

If your AusNet Services Stapled Securities are listed on SGX-ST and deposited with CDP, you do not have the right to vote as a Securityholder because your AusNet Services Stapled Securities are registered in the name of CDP. In order to vote, your voting instructions must be received by CDP by 5.00pm (Singapore time) on Wednesday, 20 May 2015. Instructions on how to lodge your voting instructions with CDP are included in the orange CDP Voting Instruction Form accompanying the notices of Meetings at Annexures F and G of this Securityholder Booklet. If you wish to attend the Meetings, please follow the procedures set out in the orange CDP Voting Instruction Form.

7 Additional information

7.1 NewCo Constitution

The rights attaching to the NewCo Shares are set out in the NewCo Constitution. The terms of the NewCo Constitution are substantially the same as the existing AusNet Services Distribution Constitution and AusNet Services Transmission Constitution.

The following is a summary of the important aspects of the NewCo Constitution and the rights attaching to the NewCo Shares. A full copy of the NewCo Constitution is available on the AusNet Services website.

Share capital	All NewCo Shares are ordinary shares and rank equally in all aspects. NewCo must maintain a register of NewCo Shareholders. In relation to persons in respect of whom CDP or its nominee holds NewCo Shares, the registered NewCo Shareholder will be CDP or its nominee (as appropriate).
Restrictions on ownership of NewCo Shares	There are no limitations on the right to own NewCo Shares or vote based on residence or nationality imposed by law or the NewCo Constitution, although the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth) regulates foreign ownership generally.
Voting	At a general meeting, every NewCo Shareholder present in person or as proxy, representative or attorney has one vote on a show of hands and every NewCo Shareholder present, whether in person or by proxy, representative or attorney has one vote per NewCo Share on a poll. In relation to persons in respect of whom CDP or its nominee holds NewCo Shares, the registered holder (and hence the person entitled to exercise voting rights) will be CDP (or its nominee).
General meetings	Each NewCo Shareholder is entitled to notice of, and to attend and vote at, general meetings, and to receive all notices, accounts and other documents required to be sent to NewCo Shareholders under the NewCo Constitution, the Corporations Act or the Listing Rules. NewCo will make such documents available to CDP Account Holders. CDP Account Holders cannot vote at any meetings, including as proxies of CDP. CDP Account Holders will be entitled (as observers) to attend meetings in person.
Rights on winding up	If NewCo is wound up and the property of the company available for distribution among the NewCo Shareholders is more than sufficient to pay all the debts and liabilities of the company and the costs, charges and expenses of the winding up, the excess must be divided amongst NewCo Shareholders in proportion to the number of NewCo Shares held by them.
NewCo Directors	The minimum number of NewCo Directors is four and the maximum number is 14. NewCo Shareholders may vary the number by ordinary resolution in general meeting. The NewCo Directors will be subject to retirement by rotation and re-election by NewCo Shareholders in general meeting.
Removal of NewCo Directors	NewCo Shareholders can by resolution remove any director and appoint another person as a replacement.
NewCo Directors' remuneration	A NewCo Director's remuneration is determined by the NewCo Directors but the total amount provided to all NewCo Directors for the services as NewCo Directors must not exceed the amount fixed by NewCo at its general meeting. The total amount currently fixed for the remuneration of NewCo Directors will be the same as the total amount currently fixed for the remuneration of AusNet Services Directors.
Indemnification	Each NewCo Director, secretary and executive officer of NewCo may be indemnified against any liability incurred in that capacity to another person unless NewCo is prohibited by statute to indemnify the person.
NewCo Directors' interests	A NewCo Director who has an interest in a matter that is being considered at a meeting of NewCo Directors, may despite that interest, vote, be present and be counted in a quorum at the meeting unless prohibited by the Corporations Act.
Shareholding qualification of a NewCo Director	A person is not required to hold any NewCo Shares to qualify for appointment as a NewCo Director.
Sale of non-marketable parcels	NewCo is permitted to implement arrangements to sell certain small shareholdings on behalf of NewCo Shareholders.
Rights, preferences and restrictions attaching to each class of shares	NewCo may issue any further classes of shares with any such preferred, deferred or other special rights or with those restrictions, whether with regard to dividends, voting, return of capital or otherwise as the NewCo Directors determine.
Dividends	The NewCo Directors may pay any interim and final dividends. Subject to any rights or restrictions attached to any shares in the capital of NewCo (at present, there are none), dividends are apportioned and paid proportionately to the amounts paid up or credited as paid on the shares.
Capitalisation of profits	The NewCo Directors may capitalise and distribute among NewCo Shareholders any amount in proportion to which NewCo Shareholders would have been entitled to receive dividends.
Lien and forfeiture	NewCo has a first lien on each partly paid NewCo Share, for all unpaid calls and instalments due and each NewCo Share for any amounts the company is required by law to pay and has paid in respect of that NewCo Share.
Constitution amendment	The NewCo Constitution can only be amended by special resolution passed by at least 75% of the votes cast by NewCo Shareholders entitled to vote on the resolution at a general meeting of NewCo.
Issue of NewCo Shares	The NewCo Directors must not exercise any power to issue NewCo Shares, or to make or grant an offer, agreement or option which would or might require NewCo Shares to be issued, without the prior approval of Securityholders which must have been obtained no more than 18 months before the issue of the NewCo Shares, or the making or granting of the offer, agreement or option.

7.2 Summary of Implementation Deed

On 14 April 2015, AusNet Services and NewCo entered into an Implementation Deed, which sets out the procedures to be followed to implement the Proposal and other related matters as described in this Securityholder Booklet.

The Implementation Deed provides that subject to the Schemes becoming Effective, AusNet Services agrees that the Stapling Deed is terminated immediately before the Proposal is implemented.

The Implementation Deed provides termination rights in certain limited cases where there is an alternative transaction which is superior to the Proposal or where the AusNet Services Directors determine that the Proposal is no longer in the best interests of Securityholders.

The Implementation Deed provides for an end date for the Schemes becoming Effective, being 30 September 2015 or such other date as agreed by the parties. If the Schemes have not become Effective on or before the end date, a party may terminate the Implementation Deed by notice to the other parties.

7.3 NewCo Deed Poll

NewCo has executed a deed poll in favour of Securityholders on the Record Date under which it undertakes to perform all steps that it is required to perform to implement under the Proposal. A full copy of the NewCo Deed Poll is available on the AusNet Services website.

7.4 Sale Facility

AusNet Services has appointed the Sale Nominee for the purposes of the Sale Facility. The operation of the Sale Facility is described in section 6.3.

The obligations under the Sale Facility deed are conditional on the Schemes becoming Effective.

A party may terminate the Sale Facility deed for material breach by the other party, or if the other party disposes of its assets, operations or business other than in the ordinary course, ceases to carry on business or triggers certain insolvency events, or if the Proposal does not proceed for any reason.

7.5 AusNet Services Directors' interest in the Proposal

The number of AusNet Services Stapled Securities held (directly, indirectly or beneficially) by each AusNet Services Director as at the date of this Securityholder Booklet is set out in the following table:

AusNet Services Director	Number of AusNet Services Stapled Securities
Ng Kee Choe	195,883
Nino Ficca	1,463,183
Ho Tian Yee	0
Sun Jianxing	0
Ralph Craven	0
Sally Farrier	0
Tony Iannello	190,976
Tina McMeckan	90,000
Ian Renard	84,898

No AusNet Services Director holds any other marketable securities of AusNet Services or has an interest in the Proposal other than as a Securityholder as set out above. No payment or other benefit is proposed to be made or given to any director, company secretary or executive officer of AusNet Services (including its related bodies corporate) as compensation for the loss of, or as consideration for or in connection with his or her retirement from, office in AusNet Services (including its related bodies corporate) in connection with the Proposal.

Each AusNet Services Director will be entitled to vote at the Meetings and Participate in the Proposal in respect of the AusNet Services Stapled Securities referred to above. Each AusNet Services Director intends to vote any AusNet Services Stapled Securities held or controlled by them in favour of each of the Resolutions.

Under the Proposal, all existing AusNet Services Directors will become directors of NewCo. The terms of their engagement as directors of NewCo (including their remuneration) will be substantially the same as their existing terms.

Other than as set out above, no AusNet Services Director has at the date of this Securityholder Booklet, or had within the 2 preceding years, any interests in offer of NewCo Shares, the formation or promotion of NewCo or in any property acquired or proposed to be acquired by NewCo, and no amounts have been paid or agreed to be paid by any person to an AusNet Services Director either to induce them to become, or to qualify them as, a director of NewCo.

7.6 Interests of experts and advisers

Other than as set out below, no person named in this Securityholder Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation of the Securityholder Booklet has any interest in the offer of NewCo Shares, the promotion of NewCo or in any property acquired or proposed to be acquired by NewCo, and no amounts have been paid or agreed to be paid by any person to any such professional or adviser for services rendered by them in connection with the Proposal.

King & Wood Mallesons is entitled to be paid approximately \$1,600,000 (plus GST and disbursements) in fees and charges for legal services rendered to AusNet Services up to the date of this Securityholder Booklet in connection with the Proposal. Further amounts may be paid in accordance with its normal time based charges.

Loneragan Edwards & Associates Limited is entitled to be paid approximately \$60,000 (plus GST and disbursements) in fees and charges for preparation of the Independent Expert's Report. Further amounts may be paid in accordance with its normal time based charges.

KPMG Transaction Services, a division of KPMG Financial Advisory Services (Australia) Pty Ltd, is entitled to be paid approximately \$450,000 (plus GST and disbursements) in fees and charges for preparation of their Investigating Accountant's Report up to the date of this Information Memorandum. Further amounts may be paid in accordance with its normal time based charges.

Deloitte Lawyers Pty Ltd, Deloitte & Touche LLP and Deloitte Touche Tohmatsu are entitled to be paid a total of approximately \$650,000 (plus GST and disbursements) in fees and charges for tax and valuation advice rendered to AusNet Services up to the date of this Information Memorandum in connection with the Proposal. Further amounts may be paid in accordance with its normal time based charges.

7.7 Effect of the Proposal on AusNet Services' employee equity schemes

All AusNet Services employees holding AusNet Services Stapled Securities under AusNet Services' current General Employee Exempt Security Plan ("GEESP") and Long Term Incentive Plan ("LTIP") will Participate in the Proposal in respect of those AusNet Services Stapled Securities on the same basis as all AusNet Services Securityholders. The NewCo Shares issued in exchange for their AusNet Services Stapled Securities held under the GEESP or LTIP will continue to be subject to the same restrictions under the GEESP or LTIP as the AusNet Services Stapled Securities were prior to the Proposal.

7.8 Effect of the Proposal on AusNet Services' DRP

Following implementation of the Proposal, AusNet Services intends to continue to operate a DRP on substantially the same terms as the current DRP. An updated DRP will be available at the "Securities Information" section of the AusNet Services website at www.ausnetservices.com.au. Whether the DRP will be activated in relation to particular distributions will continue to be determined by the AusNet Services Directors at the time of announcement of the relevant distribution. Elections made by Securityholders in relation to the current DRP will be deemed to constitute equivalent elections in relation to the NewCo DRP (see section 7.14).

For information in relation to the operation of the DRP to the AusNet Services distribution for the second half of the financial year ending 31 March 2015 (expected to be paid on 26 June 2015), see section 1.11.

7.9 Infrastructure entity disclosures

AusNet Services is an "infrastructure entity" as defined in Regulatory Guide 231 Infrastructure entities: Improving disclosure for retail investors ("RG 231"). AusNet Services 31 March 2014 Annual Report contains disclosures required by RG 231 which inform Securityholders about certain aspects of AusNet Services.

There have been no material changes to AusNet Services' performance against the benchmarks since 31 March 2014, and there are no material changes expected as a result of the Proposal.

A summary of the benchmark disclosure requirements is also included in the table below, which should be read together with the disclosures in the 31 March 2014 AusNet Services Annual Report.

Benchmark	Statement and explanation
Benchmark 1: Corporate structure and management The infrastructure entity's corporate governance policies and practices conform with the principles and recommendations in GN 9A.	The benchmark is not met. Having regard to the current securityholdings, AusNet Services does not comply with the ASX Recommendations 2.1 – majority of independent directors on board, 2.2 – independent chairman of board, 2.4 – majority independent directors on nomination committee, 8.2 – majority independent directors on remuneration committee
Benchmark 2: Remuneration of management Incentive-based remuneration paid to management for the infrastructure entity is derived from the performance of the infrastructure entity and not the performance of other entities within its consolidated group, except where the infrastructure entity is the parent of the consolidated group.	The benchmark is met
Benchmark 3: Classes of units and shares All units or shares are fully paid and have the same rights.	The benchmark is met
Benchmark 4: Substantial related party transactions The infrastructure entity complies with ASX Listing Rule 10.1 for substantial related party transactions.	The benchmark is met
Benchmark 5: Cash flow forecast The infrastructure entity has, for the current financial year, prepared and had approved by its directors: - a 12-month cash flow forecast for the infrastructure entity and has engaged an independent suitably qualified person or firm to provide, in accordance with the auditing standards: - negative assurance on the reasonableness of the assumptions used in the forecast; and - positive assurance that the forecast is properly prepared on the basis of the assumptions and on a basis consistent with the accounting policies adopted by the entity; and - an internal unaudited cash flow forecast for the remaining life, or the right to operate (if less), for each new significant infrastructure asset acquired by the infrastructure entity.	Part (a) of the benchmark is not met. While a 12-month cash flow forecast has been prepared for financial year 2015 and has been approved by the directors, it has not been independently audited or reviewed. The directors believe that, due to the highly regulated nature of the business, the current process and controls over the collation, reporting and management of the cash flow forecast is sufficient Part (b) of the benchmark is not applicable to AusNet Services

Benchmark	Statement and explanation
Benchmark 6: Base-case financial model Before any new material transaction, and at least once every three years, an assurance practitioner performs an agreed-upon procedures check on the infrastructure entity's base-case financial model that: a) checks the mathematical accuracy of the model, including that: > the calculations and functions in the model are in all material respects arithmetically correct; and > the model allows changes in assumptions, for defined sensitivities, to correctly flow through to the results; and b) includes no findings that would, in the infrastructure entity's opinion, be materially relevant to the infrastructure entity's investment decision.	The benchmark has been met
Benchmark 7: Performance and forecast For any operating asset developed by the infrastructure entity, or completed immediately before the infrastructure entity's ownership, the actual outcome for the first two years of operation equals or exceeds any original publicly disclosed forecasts used to justify the acquisition or development of the asset.	The benchmark is not applicable to AusNet Services
Benchmark 8: Distributions If the infrastructure entity is a unit trust, it will not pay distributions from scheme borrowings.	The benchmark has been met
Benchmark 9: Updating the unit price If the infrastructure entity is unlisted and a unit trust, after finalising a new valuation for an infrastructure asset, the infrastructure entity reviews, and updates if appropriate, the unit price before issuing new units or redeeming units.	The benchmark is not applicable to AusNet Services as it is listed on the ASX

If there are any material changes to AusNet Services' performance against the benchmarks, including as a result of the Proposal, the disclosures will be updated on the AusNet Services website and in the AusNet Services 31 March 2015 Annual Report.

7.10 ASIC relief

ASIC has granted, or agreed in principle to grant, the following relief:

Disclosure relief for the Company Schemes

- > Regulation 5.1.01(1) and paragraph 8302(h) of Schedule 8 – relief to allow disclosure of change in financial position since 30 September 2014 rather than the date of the last annual general meeting
- > Regulation 5.1.01(1) and paragraph 8305 of Schedule 8 – consent in writing from ASIC in relation to the inclusion in the Independent Expert's Report of any forecast of profits/profitability or statement that an asset's market value differs from that in AusNet Services Transmission's or AusNet Services Distribution's books

Disclosure and offers

- > Parts 6D.2 and 6D.3 – relief from the requirement to prepare a prospectus in relation to the NewCo Shares issued under the Trust Scheme
- > Section 707 – relief from the resale provisions for NewCo Shares issued under the Trust Scheme
- > Section 911A – relief from the requirement for AusNet Services Transmission, AusNet Services Distribution and NewCo to hold an AFSL in relation to any financial advice provided in this Securityholder Booklet
- > Division 2 of Part 7.7 – relief for AusNet Services Trustee from the requirement to provide a financial services guide in respect of any financial services provided in this Securityholder Booklet
- > Division 5A of Part 7.9 – relief from the prohibition on unsolicited offers to purchase financial products in relation to AusNet Services Trust Units

Takeover exemption/voting

- > Section 611 item 7 – to allow AusNet Services Securityholders to vote on the resolution necessary for the Trust Scheme

Sale Facility

- > Section 707 – relief from the resale provisions for NewCo Shares issued to the Sale Nominee under the Trust Scheme
- > Section 601ED – relief from the requirement to register a managed investment scheme
- > Section 601FC(1)(d) – relief to allow Ineligible Foreign Securityholders to be treated differently from Eligible Securityholders
- > Divisions 2 to 5 of Part 7.9 – relief from the requirement to provide a product disclosure statement and additional disclosure
- > Part 7.6 – relief from the requirement to hold an AFSL

DRP

- > Section 708A(5) – update of existing relief to permit the resale of additional NewCo Shares issued to either Singapore Power or State Grid in connection with the NewCo DRP without the requirement to give a "cleansing notice" to ASX

7.11 ASX waivers and confirmations

The ASX has agreed to grant the following waivers and confirmations under the Listing Rules:

- > Listing Rule 1.1 condition 2 – confirmation that the NewCo Constitution is consistent with the Listing Rules
- > Listing Rule 1.1 condition 3 – confirmation that ASX agrees to accept an information memorandum which incorporates relevant sections of this Securityholder Booklet
- > Listing Rule 1.1 condition 17 – confirmation that no further documentation is required to evidence the good fame and character of the proposed directors of NewCo provided they are existing AusNet Services Directors
- > Listing Rule 1.4.7 – waiver in relation to the requirement not to raise any capital for 3 months after the date of issue of the information memorandum to permit the operation of the DRP in connection with the distribution for the second half of the financial year ending 31 March 2015
- > Listing Rule 2.1 condition 1 and Listing Rule 6.1 – confirmation that terms applying to NewCo Shares are appropriate and equitable
- > Listing Rule 6.12 – confirmation that an Ineligible Foreign Securityholder may be divested of their AusNet Services Stapled Securities in accordance with the AusNet Services Trust Constitution Amendments
- > Listing Rules 7.1 and 10.11 – confirmation in relation to the issue of NewCo Shares to implement the Proposal (noting exceptions in Listing Rules 7.2 (exception 5) and 10.12 (exception 5) regarding merger by way of scheme of arrangement under Part 5.1)
- > Listing Rule 7.40 – confirmation of timetable
- > Listing Rule 10.1 – confirmation that Listing Rule 10.1 does not apply to the Proposal
- > Listing Rule 11.1 – confirmation that Listing Rule 11.1 does not apply to the Proposal
- > Listing Rule 15.1.1 – confirmation that ASX does not object to the AusNet Services Trust Constitution Amendments
- > Listing Rule 7.1 – waiver in relation to AusNet Services' DRP to the extent necessary to allow the issue of shares to State Grid
- > Listing Rules 7.1 and 10.11 – waiver in relation to AusNet Services' DRP to the extent necessary to allow the issue of shares to Singapore Power
- > Listing Rule 17.11 – removal of AusNet Services Transmission, AusNet Services Distribution and AusNet Services Trust from the official list of ASX after the Implementation Date.

7.12 Stamp duty relief

On 28 October 2014, the Treasurer of Victoria advised AusNet Services that ex gratia relief will be granted in relation to the potential stamp duty liability on the implementation of the Proposal on terms that are equivalent to those that would apply to a corporate reconstruction or corporate consolidation exemption in Victoria.

The mechanism for the ex gratia relief is yet to be finalised. However, following the implementation of the Proposal, it is expected that AusNet Services will be issued with an assessment from the State Revenue Office of Victoria which will be payable in three years. Provided AusNet Services satisfies the conditions of the ex gratia relief at the end of the three year period, the assessment will be paid out of the government consolidated revenue and not by AusNet Services.

The conditions are that:

- > NewCo, AusNet Services Distribution and AusNet Services Transmission remain part of the same corporate group for a period of at least three years from the Implementation Date.
- > The Proposal is not devised for the principal purpose of taking advantage of the duty benefit
- > The Proposal will be implemented in a way that is not different from how it was described in the submission which formed the basis of the application to the Treasurer

AusNet Services expects to be able to satisfy the conditions of the ex gratia relief. The stamp duty liability that will be payable by AusNet Services if the terms of the ex gratia relief are not met is estimated to be \$40 million.

7.13 Consents and disclaimers

Each of the parties named below as consenting parties:

- > has given and has not, before lodgement of this Securityholder Booklet with ASIC, withdrawn its written consent to be named in this Securityholder Booklet in the form and context in which it is named
- > has given and has not, before the lodgement of this Securityholder Booklet with ASIC, withdrawn its written consent to the inclusion of its respective statements and reports (where applicable) noted next to its name below, and the references to those statements and reports in the form and context in which they are included in this Securityholder Booklet
- > does not make, or purport to make, any statement in this Securityholder Booklet or any statement on which a statement in the Securityholder Booklet is based, other than those statements referred to below in respect of that person's name (and as consented to by that person)
- > has not caused or authorised the issue of this Securityholder Booklet, and
- > to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Securityholder Booklet.

Role	Consenting parties	Relevant statement or report
Australian legal adviser to AusNet Services in connection with the Proposal	King & Wood Mallesons	N/A
Independent Expert	Loneragan Edwards & Associates Limited	Independent Expert's Report
Investigating Accountant	KPMG Transaction Services, a division of KPMG Financial Advisory Services (Australia) Pty Ltd	Investigating Accountant's Report
Taxation advisers to AusNet Services in connection with the Proposal	Deloitte Lawyers Pty Ltd	Australian Taxation Letter
	Deloitte & Touche LLP	Singapore Taxation Letter

7.14 Entitlement to Participate in the Proposal

Record Date

If the Schemes become Effective, AusNet Services Securityholders on the Register on the Record Date will Participate in the Proposal unless they are Ineligible Foreign Securityholders. The Record Date is expected to be 7.00pm on Thursday, 11 June 2015.

For the purposes of determining who is an AusNet Services Securityholder on the Record Date, dealings in AusNet Services Stapled Securities will only be recognised by AusNet Services if:

- > in the case of dealings of the type to be effected using CHESS, the transferee is registered on the Register as the holder of the relevant AusNet Services Stapled Securities on or before 7.00pm (Melbourne time) on the Record Date, and
- > in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 5.00pm (Melbourne time) on the date of the Record Date at the place where the Register is kept.

AusNet Services will not accept for registration or recognise for any purpose any transmission application or transfer of AusNet Services Stapled Securities received after 5.00pm (Melbourne time) on the date of the Record Date.

Binding instructions or notifications between an Eligible Securityholder and AusNet Services relating to AusNet Services Stapled Securities or an Eligible Securityholder's status as a Securityholder (including, without limitation, any instructions in relation to payment of dividends or communications from AusNet Services) will (to the extent permitted by law), from the Record Date, be deemed by reason of the Schemes to be similarly binding instructions or notifications to, and accepted by, NewCo in respect of the NewCo Shares issued to the Eligible Securityholder until those instructions or notifications are, in each case, revoked or amended in writing addressed to NewCo or its share registry. AusNet Services proposes to provide available information about Eligible Securityholders' tax file numbers to NewCo. However, you may request that AusNet Services not provide these details to NewCo by contacting the AusNet Services Securityholder Information Line.

No disposals after Effective Date

If the Schemes become Effective, you may not dispose of or purport or agree to dispose of any AusNet Services Stapled Securities after the close of business on the Effective Date. Any dealings in AusNet Services Stapled Securities after this time will not be recognised.

Ineligible Foreign Securityholders

As described in section 1.14, Ineligible Foreign Securityholders will have their AusNet Services Stapled Securities transferred to the Sale Nominee on or before the Implementation Date. The Sale Nominee will then Participate in the Proposal in the same way as other AusNet Services Securityholders and sell the NewCo Shares it receives. The sale proceeds, together with an amount representing the AusNet Services distribution for the second half of the financial year ending 31 March 2015 (see section 1.11), will be distributed to Ineligible Foreign Securityholders.

CDP Account Holders

CDP Account Holders' eligibility to Participate in the Proposal through CDP will be assessed based on the CDP Register at 5.00pm (Singapore time) or 7.00pm (Melbourne time) on the Record Date. See section 6.4.

7.15 Foreign jurisdictions

The distribution of this Securityholder Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities law. Each of AusNet Services and NewCo disclaims all liability to such persons.

Securityholders who are nominees, trustees or custodians are encouraged to seek independent advice as to how they should proceed.

The offers of securities made pursuant to this Securityholder Booklet are made in compliance with the laws of Australia, and in compliance with all other relevant codes, rules and other requirements that apply to the offers in Australia. Other than as set out below, no action has been taken to register or qualify this Securityholder Booklet or any aspect of the Proposal in any jurisdiction outside of Australia.

Nothing in this Securityholder Booklet should be taken to be an invitation, offer, financial promotion, distribution or advice, in relation to any securities or financial product (including AusNet Services Stapled Securities or NewCo Shares), to any Ineligible Foreign Securityholders, or any CDP Account Holder who would be an Ineligible Foreign Securityholder if it held the AusNet Services Stapled Securities directly rather than through CDP.

New Zealand

The offer of NewCo Shares is being made to Securityholders with addresses in New Zealand pursuant to the New Zealand Securities Act (Overseas Companies) Exemption Notice 2013.

Singapore

WARNING: The contents of this Securityholder Booklet have not been reviewed by any Singapore regulatory authority. You are advised to exercise caution in relation to this Securityholder Booklet. If you are in any doubt about any of the contents of this Securityholder Booklet, you should obtain independent professional advice.

This Securityholder Booklet has not been registered as a prospectus with the Monetary Authority of Singapore ("MAS"). This Securityholder Booklet is not required to be registered as a prospectus with the MAS, pursuant to a declaration granted by the MAS under section 273(5) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") on 14 April 2015.

Hong Kong

WARNING: The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to this document. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This document is strictly confidential to the person to whom it is addressed and may not be provided, assigned or transferred to any other person. If you are not the intended recipient of this document, you are hereby notified that any review, dissemination, distribution, publication or reproduction (in whole or in part) of this document to any person in Hong Kong is strictly prohibited except to your professional advisers under duties of confidentiality.

This document is not a prospectus within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32, The Laws of Hong Kong) ("CO") nor is it an offer or invitation to the public within the meaning of the CO and the Securities and Futures Ordinance (Chapter 571, The Laws of Hong Kong) ("SFO"), or an advertisement, invitation or document subject to section 103(1) of the SFO. This document and the contents within have not been authorised by the Hong Kong Securities and Futures Commission.

No advertisement, invitation or document relating to the Proposal (including disposal of AusNet Services Stapled Securities and subscription of NewCo Shares) may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made thereunder.

No person allotted NewCo Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

Malaysia

NewCo Shares will only be issued to persons falling within one or more of the following exemptions from the Capital Markets and Services Act 2012 of Malaysia:

- > a closed end fund approved by the Security Commissions of Malaysia
- > a holder of a Capital Markets Services Licence issued by the Security Commissions of Malaysia
- > a person who acquires, as principal, NewCo Shares worth at least MYR250,000
- > an individual whose total net personal assets, or total net joint assets with his or her spouse, exceeds MYR3,000,000 (or equivalent amount), excluding the value of the primary residence of the individual
- > an individual who has a gross annual income exceeding MYR300,000 (or equivalent amount) per annum in the preceding 12 months
- > an individual who, jointly with his or her spouse, has a gross annual income of MYR400,000 (or equivalent amount) per annum in the preceding 12 months
- > a corporation with total net assets exceeding MYR10,000,000 (or equivalent amount) based on the last audited accounts
- > a partnership with total net assets exceeding MYR10,000,000 (or equivalent amount)
- > a bank licensee or insurance licensee as defined in the Labuan Financial Services and Securities Act 2010 of Malaysia
- > an Islamic bank licensee or takaful licensee as defined in the Labuan Islamic Financial Services and Securities Act 2010 of Malaysia, or
- > any other person as may be specified by the Security Commissions of Malaysia.

United States

This Securityholder Booklet does not constitute an offer to any person in the US, any U.S. Person (as that term is defined in Regulation S under the United States Securities Act of 1933), or any person acting for the account or benefit of a U.S. Person. Securities may not be offered or sold in the US or to, or for the account or benefit of, U.S. Persons unless they are registered under the Securities Act or exempt from registration. AusNet Services and NewCo intend to rely on an exemption from the registration of the Securities Act provided under Section 3(a)(10) thereof in connection with the Proposal and the issue of the NewCo Shares.

Canada

AusNet Services and NewCo intend to rely on exemptions from the prospectus requirement under the laws of Canada and its provinces and territories, provided by section 2.11(a) and 2.11(b) of National Instrument 45-106 Prospectus and Registration Exemption for an arrangement and/or reorganization, in connection with the Proposal and the distribution, trade or issue of NewCo Shares. Investors should seek their own advice in relation to any resale of NewCo Shares.

United Kingdom

NewCo Shares will only be issued to persons falling within one or more of the following exemptions from section 21 of the United Kingdom Financial Services and Markets Act 2000 ("FSMA"):

1. authorised firms under FSMA and certain other investment professionals falling within article 19 of the FSMA (Financial Promotion) Order, (the "FPO") and their directors, officers and employees acting for such entities in relation to investment
2. high net worth entities falling within article 49 FPO and their directors, officers and employees acting for such entities in relation to investment, and
3. persons who receive this document outside the United Kingdom or persons who are otherwise lawfully able to receive it under FSMA.

The further distribution of this document in the United Kingdom to anyone not falling within the above categories is not permitted by AusNet Services or by NewCo and may contravene FSMA. No person falling outside those categories should treat this document as constituting a promotion to him, or act on it for any purposes whatever.

Recipients of this document are advised that AusNet Services and NewCo are not acting for or advising them and are not responsible for providing recipients of this document with the protections which would be given to those who are clients of AusNet Services and NewCo under the Financial Conduct Authority Rules.

No prospectus is required under section 85 FSMA. In addition to satisfying one or more of the exemptions above, any offer that may be made of NewCo Shares will be:

- a) limited to fewer than 150 persons in the United Kingdom, in addition to Qualified Investors, or
- b) made on the basis that the minimum consideration payable by any investor in AusNet Services and NewCo will be not less than €100,000 (or equivalent amount).

Switzerland

NewCo Shares are distributed exclusively to persons falling within one or more of the following exemptions for qualified investors pursuant to the Swiss Collective Investment Schemes Act ("CISA"):

- > "super-qualified investors", i.e. regulated financial intermediaries (such as banks, securities dealers, fund management companies, asset managers of collective investment schemes and central banks) as well as regulated insurance companies
- > public entities and pension funds with professional treasury (professional treasury meaning the entity has entrusted at least one qualified professional experienced in finance with the management of its financial assets on a permanent basis)
- > enterprises with professional treasury (see above)
- > investors who have entered into a discretionary asset management agreement with a regulated financial intermediary (as described above) or with an independent asset manager complying with minimal standards with respect to (Swiss) anti-money laundering regulations, conduct rules as well as the form and content of the agreement are considered to be qualified investors, unless they have declared in writing that they do not want to be considered as qualified ("opt-out")
- > individuals who request in writing to be treated as qualified investors ("opt-in"). Such an opt-in is possible if, in accordance with Art. 6 para. 1 lit. a and b of the Collective Investment Schemes Ordinance ("CISO"), an individual can demonstrate that he or she:
 - holds assets of at least CHF 500,000 and has sufficient professional knowledge or experience to understand the risks related to the investments, or
 - holds assets of at least CHF 5 million, or
- > Securityholders with registered addresses in Switzerland who upon their documented own initiative instructed or requested that this document be sent to them.

This document is not aimed at gaining any investor, and no NewCo Shares are distributed to any investor who does not fall within one or more of the exemptions above. The issue of NewCo Shares is also limited to fewer than 100 persons in this jurisdiction.

Norway

This document has not been approved as a prospectus in the European Economic Area under the Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments (as amended) ("MiFID"). An offer or issue of NewCo Shares is limited to fewer than 150 persons in Norway who are not "professional investors" as defined under MiFID. Further distribution of this document is prohibited.

Germany

The NewCo Shares have not been and will not be offered or sold in Germany in a manner which requires the prior publication of a prospectus which has been approved in connection with legal measures implementing Prospectus Directive and Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements ("Prospectus Regulation"), in each case as amended from time to time.

Recipients of this document are advised that neither AusNet Services nor NewCo are acting for or advising them and that neither AusNet Services nor NewCo nor any other person or entity has sought approval for any prospectus in relation to the NewCo Shares or taken any other measures facilitating any form of offer or promotion for the NewCo Shares which requires the prior publication of a prospectus in accordance with the Prospectus Directive and the Prospectus Regulation or to ensure a certain form of taxation to be applied to the NewCo Shares or its holders.

Any offer that may be made of NewCo Shares will be:

- a) limited to fewer than 150 persons in Germany, in addition to Qualified Investors, or
- b) made on the basis that the minimum consideration payable by any investor in AusNet Services and NewCo will be not less than €100,000 (or equivalent amount).

7.16 Intention of AusNet Services Directors concerning the businesses of AusNet Services

It is the present intention of the AusNet Services Directors following implementation of the Proposal that, other than as described in this Securityholder Booklet, the business of AusNet Services be continued as it has been before, no major change be made to that business and the present policies of AusNet Services relating to the employment of its employees will continue.

7.17 Other material information

Except as set out in this Securityholder Booklet, so far as the AusNet Services Directors are aware as at the date of this Securityholder Booklet:

- > there is no information material to the making of a decision by a Securityholder in relation to the Schemes being information that is within the knowledge of any AusNet Services Director or any director of a related body corporate of AusNet Services at the time of lodging this Securityholder Booklet with ASIC which has not previously been disclosed to Securityholders, and
- > other than as disclosed in this Securityholder Booklet, the financial position of AusNet Services has not materially changed since 30 September 2014, being the balance date of the last half year accounts for AusNet Services lodged with ASIC and ASX.

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The Directors
AusNet Services (Transmission) Ltd
AusNet Services (Distribution) Ltd
AusNet Services (RE) Ltd as the responsible entity of AusNet Services Finance Trust
Level 31, 2 Southbank Boulevard
Southbank VIC 3006

22 April 2015

Subject: Proposed restructure of AusNet Services

Dear Directors

Introduction

- 1 The AusNet Services group (AusNet Services) currently comprises three stapled entities:
 - (a) AusNet Services (Transmission) Ltd (AusNet Services Transmission)
 - (b) AusNet Services (Distribution) Ltd (AusNet Services Distribution); and
 - (c) AusNet Services Finance Trust (AusNet Services Trust).
- 2 In order to simplify the existing stapled security structure, AusNet Services has proposed moving to a single holding company structure (the Proposal). Under the Proposal, the securityholders of AusNet Services (AusNet Services Securityholders or Securityholders) would receive one share in a new holding company (NewCo) in exchange for each AusNet Services Stapled Security.
- 3 The Proposal is subject to a number of conditions precedent (including Securityholder and Court approval)¹, and is to be implemented by way of two schemes of arrangement and a 'trust scheme'.

Scope

- 4 The Directors of AusNet Services have requested that we prepare an Independent Expert's Report (IER) stating whether, in our opinion, the Proposal is in the best interests of AusNet Services Securityholders and the reasons for that opinion.
- 5 Lonergran Edwards & Associates Limited (LEA) is independent of AusNet Services and has no other involvement or interest in the Proposal.

¹ Section 6.2 of the Securityholder Booklet sets out the conditions precedent and their status.

Summary of opinion

- 6 In our opinion, the Proposal is in the best interests of AusNet Services Securityholders. We have formed this opinion because, in our opinion, the advantages of the Proposal outweigh the disadvantages (both of which are summarised below).

Advantages

- 7 AusNet Services has agreed with the ATO (following an audit of AusNet Services' intergroup funding arrangements) that it will no longer claim interest tax deductions on intergroup loans from the AusNet Services Trust (AusNet Services Trust Loans). As interest income on these loans will still be assessable for tax purposes, the existing structure is very tax inefficient. However, the different tax treatment of interest income and interest expenses on intergroup loans will not occur under the proposed new structure.
- 8 AusNet Services' ability to distribute franking credits under the existing structure will be significantly constrained as a result of the agreement with the ATO. This is because AusNet Services Transmission and AusNet Services Distribution will not generate sufficient profits² to enable available franking credits to be utilised³. In contrast, the analysis in Appendix C indicates that available franking credits can largely be distributed under the proposed new structure.
- 9 Due to the constraints associated with distributing franking credits under the existing structure, in our view, the gross income (including attached franking credits) which can be distributed to AusNet Services Securityholders will be greater under the proposed new structure in the long term.
- 10 AusNet Services expects to receive an uplift in its asset values for tax purposes under the proposed structure. This will result in higher depreciation charges for tax purposes, reducing tax liabilities. The present value of this benefit has been estimated by LEA at \$63 million.
- 11 The proposed structure will simplify financial reporting, compliance and regulatory obligations, which should result in cost savings estimated at \$0.9 million per annum.
- 12 The simplified and more transparent ownership structure is likely to have a greater appeal to a broader range of investors (particularly foreign investors who are less familiar with stapled security structures).
- 13 The proposed structure provides AusNet Services with more funding flexibility, including an improved ability to retain earnings to pursue growth opportunities and an increase in allowable tax depreciation charges.

Disadvantages

- 14 AusNet Services will lose some \$510 million in tax losses (valued by us at their present value of \$61 million) as a result of the Proposal.

² A dividend can only be franked if it is paid out of current profits or retained earnings. In order to consider the long term impact on the utilisation of available franking credits under the existing structure we have undertaken our analysis based on profits as distributions reliant on retained earnings are not sustainable in the long term.

³ This is largely due to the interest payments made to the AusNet Services Trust which, under the existing structure, will not be deductible for tax purposes.

- 15 Investors who cannot fully utilise the franking credits attached to AusNet Services distributions may receive a lower after tax distribution under the Proposal (primarily due to the loss of tax losses to shield tax payments by AusNet Services, and also the fact that distributions will no longer include a deferred capital component). Taxation liabilities may be crystallised for non-resident Securityholders, and resident Securityholders who hold their AusNet Services Stapled Securities on revenue account.
- 16 Transaction costs of approximately \$6.0 million will be incurred in connection with the Proposal. However, the significant majority of these costs will be incurred by the date of the Scheme Meetings and General Meetings (Meetings) to vote on the Proposal. Accordingly, the level of costs which will be saved if the Proposal is not approved will be relatively small.
- 17 Ineligible Foreign Securityholders⁴ expected to represent no more than 0.5% of AusNet Services Securityholders will not be eligible to receive NewCo Shares. As a result, their NewCo shares will be sold on their behalf.

Other matters

- 18 It should also be noted that the underlying business of AusNet Services (being its electricity transmission, electricity distribution, gas distribution and Select Solutions businesses) will not change as a result of the Proposal. Further, the economic interest of Securityholders in AusNet Services will also not change as a result of the Proposal.

General

- 19 In preparing this report we have considered the interests of AusNet Services Securityholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual Securityholders.
- 20 The impact of approving the Proposal on the tax position of AusNet Services Securityholders depends on the individual circumstances of each investor. AusNet Services Securityholders should read the Securityholder Booklet and consult their own professional advisers if in doubt as to the taxation consequences of the Proposal.
- 21 The ultimate decision whether to approve the Proposal should be based on each Securityholder's assessment of their own circumstances. If AusNet Services Securityholders are in doubt about the action they should take in relation to the Proposal or matters dealt with in this report, Securityholders should seek further independent professional advice. For our full opinion on the Proposal and the reasoning behind our opinion, we recommend that Securityholders read the remainder of our report.

Yours faithfully



Craig Edwards
Authorised Representative



Wayne Lonergan
Authorised Representative

⁴ A Foreign Securityholder who is not an Eligible Foreign Securityholder.

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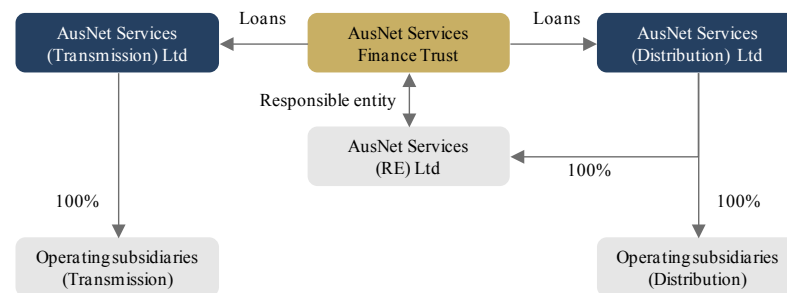
I Key terms of the Proposal

Existing structure

22 AusNet Services currently comprises three stapled entities:

- (a) AusNet Services (Transmission) Ltd (AusNet Services Transmission)
- (b) AusNet Services (Distribution) Ltd (AusNet Services Distribution); and
- (c) AusNet Services Finance Trust (AusNet Services Trust).

AusNet Services – existing structure

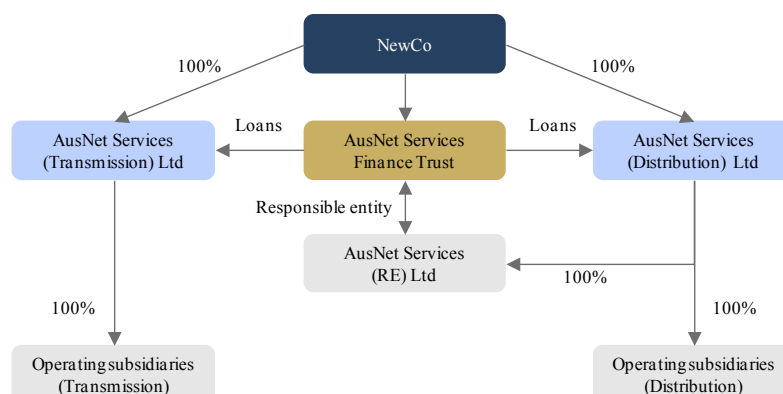


23 The operating subsidiaries of AusNet Services Transmission and AusNet Services Distribution own the assets comprising the electricity transmission business and electricity and gas distribution businesses of AusNet Services. AusNet Services Trust provides financing to both AusNet Services Distribution and AusNet Services Transmission, and facilitates distributions to Securityholders in the form of interest income and returns of capital, as appropriate.

Proposed structure

24 The proposed structure of AusNet Services assuming the Proposal is approved and implemented is as shown below:

AusNet Services – proposed structure



- 25 As stated above, the underlying business and assets of AusNet Services will not change as a result of the Proposal. Further, the economic interest of Securityholders in AusNet Services will also not change as a result of the Proposal.

Conditions

- 26 The Proposal is subject to the satisfaction of a number of conditions precedent, including Securityholder and Court approval. Details of these conditions and their status are set out in Section 6.2 of the Securityholder Booklet.

Resolution

- 27 AusNet Services Securityholders will be asked to vote on the Proposal in accordance with the Resolutions contained in the Notice of Scheme Meetings and Notice of General Meetings in Annexures E and F of the Securityholder Booklet.
- 28 If the Resolutions are passed by the requisite majorities, AusNet Services must apply to the Court for orders approving the Proposal, and if that approval is given, lodge the orders with ASIC and do all things necessary to give effect to the Proposal. Once the Court approves the Proposal it will become binding on all Securityholders who hold AusNet Services Stapled Securities as at the Record Date, whether or not they voted for the Proposal (and even if they voted against the Proposal).

II Scope and basis of assessment

Scope

- 29 The AusNet Services Directors have requested that we prepare an IER stating whether, in our opinion, the Proposal is in the best interests of AusNet Services Securityholders and the reasons for that opinion.
- 30 This report has been prepared by LEA for the benefit of AusNet Services Securityholders to assist them in considering the Resolutions to approve the Proposal. Our report will accompany the Securityholder Booklet to be sent to Securityholders. The sole purpose of our report is to determine whether, in our opinion, the Proposal is in the best interests of AusNet Services Securityholders.
- 31 The ultimate decision whether to approve the Proposal should be based on each Securityholder's assessment of their own circumstances. If in doubt about the action they should take in relation to the Proposal or matters dealt with in this report, Securityholders should seek independent professional advice.

Basis of assessment

- 32 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, Regulatory Guide 111 – *Content of expert reports* (RG 111).
- 33 RG 111 requires that IER's prepared in connection with change of control transactions provide an opinion on whether the proposal is fair and reasonable. However, it should be noted that the Proposal does not have any impact on the ownership interests of AusNet Services Securityholders. As a result, the Proposal does not actually result in a change of control.
- 34 When analysing transactions which do not involve a change of control, RG 111 generally requires the expert to provide an opinion on whether the advantages of the proposal outweigh the disadvantages. In that circumstance, the expert should conclude that the proposal is 'in the best interests' of Securityholders .
- 35 In LEA's opinion, the most appropriate basis upon which to evaluate the Proposal is therefore to assess its overall impact on AusNet Services Securityholders and to form a judgement as to whether the expected benefits to Securityholders outweigh the disadvantages and risks that might result.
- 36 In our opinion, the Proposal is therefore in the best interests of AusNet Services Securityholders if the advantages of the Proposal outweigh the disadvantages.
- 37 Consequently we have considered:
- (a) the value implications of the Proposal
 - (b) the impact the Proposal is likely to have on the level of AusNet Services / NewCo distributions (per security)

- (c) the impact the Proposal is likely to have on the composition of those distributions, including differences between the level of cash distributions received by Securityholders and the level of taxable income attributable to Securityholders
- (d) whether there are any adverse upfront tax consequences for Securityholders as a result of the Proposal (depending on whether the investor holds AusNet Services Stapled Securities on income or capital account or as a non-resident)
- (e) the advantages associated with having a simpler structure, including, for example:
 - (i) more easily understandable financial statements for investors
 - (ii) potential to broaden the investor base due to simplification
 - (iii) reduced administration, compliance and professional costs
- (f) the impact the Proposal will have on earnings per security
- (g) the impact of the Proposal on the funding flexibility of AusNet Services, including its ability to retain cash flow to fund future growth
- (h) the impact of the Proposal on the ownership interests of AusNet Services
- (i) the level of one-off transaction costs incurred
- (j) the implications for Securityholders if the Proposal is not implemented
- (k) other advantages and disadvantages.

Limitations and reliance on information

- 38 Our report is based upon financial and other information provided by AusNet Services and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 39 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Proposal from the perspective of AusNet Services Securityholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 40 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.
- 41 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and

review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

- 42 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.
- 43 In forming our opinion, we have also assumed that:
 - (a) the information set out in the Securityholder Booklet is complete, accurate and fairly presented in all material respects
 - (b) if the Proposal becomes legally effective, it will be implemented in accordance with the terms set out in this report.

III Profile of AusNet Services

Overview

- 44 Based in Victoria, AusNet Services (formerly SP AusNet) employs more than 2,300 people and is listed on the Australian Securities Exchange (ASX). AusNet Services supplies electricity and gas to more than 1.3 million Victorian residential and business consumers. It is the largest diversified energy network business in Victoria, owning and operating approximately \$11 billion of electricity and gas transmission and distribution assets.
- 45 AusNet Services operates Victoria's primary electricity transmission network and electricity distribution network in eastern Victoria plus a gas distribution network in western Victoria. The location of these networks is shown below:

AusNet Services – current operations



- 46 AusNet Services has four main divisions:
- Electricity transmission** – AusNet Services owns and operates Victoria's electricity transmission network. This network consists of more than 6,500 km of powerlines that transport high voltage electricity from generation sources into the National Electricity Market (NEM) and also to Victoria's lower voltage distribution networks, which deliver it to homes and businesses
 - Electricity distribution** – AusNet Services owns and operates an electricity distribution network with more than 49,800 kilometres (km) of powerlines that supplies lower voltage electricity to more than 668,000 customers in north and eastern Victoria

- (c) **Gas distribution** – AusNet Services owns and operates a gas distribution network that supplies natural gas to more than 633,000 customers in western Victoria via more than 10,000 km of underground pipelines
 - (d) **Select Solutions** – a commercial utility services company offering utility, electricity, water, gas, telecommunications and asset management solutions.
- 47 AusNet Services' regulated (network) assets are all subject to regular regulatory determinations in relation to the revenue able to be charged for core services. The regulatory pricing periods are generally five years for the gas and electricity distribution networks. However, the current regulatory period for the electricity transmission network is three years.

Financial performance

- 48 A summary of the combined results of AusNet Services for the two years ended 31 March 2014 and the six months ended 30 September 2014 (1HY15) is set out below:

	Year to 31 Mar 13 A\$m	Year to 31 Mar 14 A\$m	6 months to 30 Sep 14 A\$m
Revenue	1,639.5	1,799.4	971.3
Electricity transmission EBITDA	423.0	436.9	213.9
Electricity distribution EBITDA	365.0	451.6	213.8
Gas distribution EBITDA	167.3	168.1	92.0
Select Solutions EBITDA	18.7	18.5	9.7
Termination fees and restructuring expenses	-	(57.7)	-
Total AusNet Services EBITDA	974.0	1,017.4	529.4
Depreciation and amortisation	(322.8)	(369.7)	(189.1)
Net finance costs	(335.9)	(342.3)	(146.9)
Profit before tax	315.3	305.4	193.4
Income tax expenses	(41.8)	(127.1)	(198.3)
Profit / (loss) after tax	273.5	178.3	(4.9)

- 49 A summary of the key factors impacting upon recent profitability is discussed below:

Year ended 31 March 2014

- (a) Electricity transmission – EBITDA increased 3.3% in FY14 largely driven by increased regulated revenues (which are not subject to volume risk)
- (b) Electricity distribution – EBITDA increased by 23.7% in FY14, primarily driven by regulated price increases and increased revenues under incentive schemes
- (c) Gas distribution – whilst EBITDA increased slightly in FY14, revenue included \$20.9 million of gifted gas distribution network assets. Excluding this one-off income, gas distribution revenue declined due to regulated price decreases from 1 July 2013 and lower volumes (reflecting in part warmer temperatures)
- (d) Select Solutions – increased revenue by 8.6% in FY14, largely due to new contract wins and additional activity under existing contracts. However, this was partially offset by

the loss of a service contract with United Energy and a \$1.2 million prior period cost adjustment

- (e) termination fees and restructuring costs of \$57.7 million were incurred in FY14 in relation to the internalisation of management services
- (f) a tax charge of \$86.7 million⁵ was recognised in FY14 for the amount potentially payable pursuant to a tax dispute

Six months to 30 September 2014

- (g) Electricity transmission – EBITDA decreased 3% in 1HY15 primarily due to increased operating expenses (due, in part, to lower capitalised overheads associated with lower capital expenditure)
- (h) Electricity distribution – notwithstanding that revenue for the division increased approximately 6% in 1HY15 due to regulatory price increases, EBITDA declined by 9%. This was primarily attributable to the \$37.5 million recognised for rebates payable to customers of Advanced Metering Infrastructure, as well as a \$15 million impairment of Advanced Metering Infrastructure assets
- (i) Gas distribution – EBITDA decreased 22.4% in 1HY15 compared to the previous half year period, largely driven by revenue reductions following a regulatory determination and lower volumes (reflecting in part warmer temperatures)
- (j) Select Solutions – revenue and EBITDA increased by 8.6% and 26.0% in 1HY15. The uplift in revenue (and part of the uplift in earnings) was primarily due to the acquisition of Geomatic Technologies in February 2014. The previous corresponding half year period included a \$1.2 million prior period adjustment (hence underlying earnings for 1HY14 were actually higher than reported)
- (k) the tax charge in 1HY15 reflected the settlement with the Australia Tax Office (ATO) in respect of intra-group financing arrangements and rights to future income that included:
 - (i) a cash payment of \$25.0 million; and
 - (ii) the cancellation of \$506.5 million of carried forward tax losses, of which \$393.2 million had previously been recognised in AusNet Services' financial statements. As a result some \$118 million of deferred tax assets was written off.

Financial position

- 50 The financial position of AusNet Services as at 31 March 2014 and 30 September 2014 is summarised below:

⁵ This figure is net of \$14.1 million in tax credits resulting from a general interest deduction.

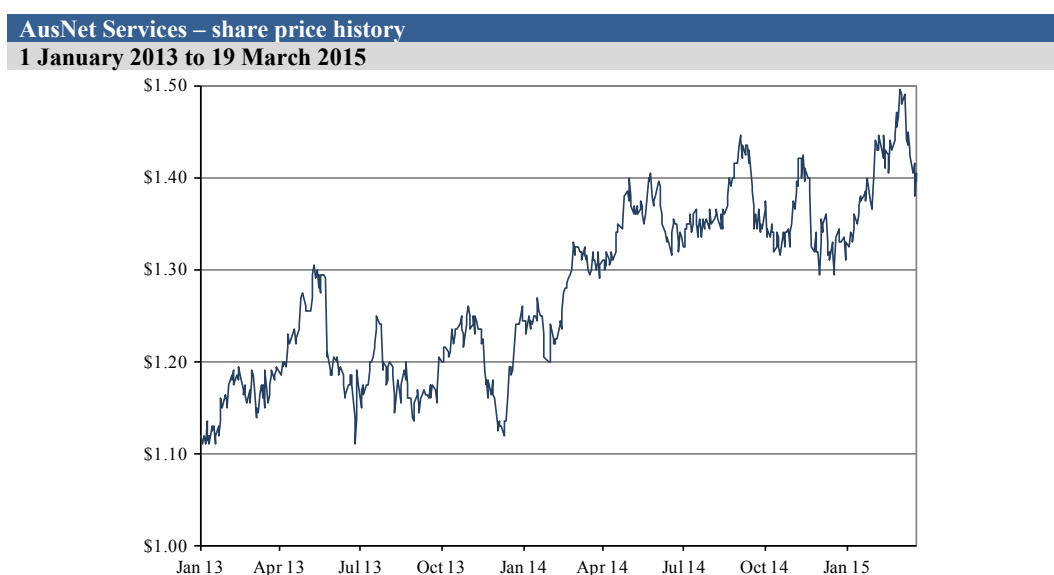
AusNet Services – financial position		
	31 Mar 14 \$m	30 Sep 14 \$m
Debtors and prepayments	306.7	340.8
Inventories	42.3	45.8
Creditors, accruals and provisions	(371.6)	(343.2)
Net working capital	(22.6)	43.4
Non-current receivables & inventory	235.0	232.1
Property, plant and equipment	8,944.3	9,134.9
Intangible assets	392.8	392.8
Current and deferred tax liabilities (net of tax receivable)	(357.3)	(528.6)
Payables and provisions (non-current)	(46.4)	(74.7)
Total funds employed	9,145.8	9,199.9
Cash & cash equivalents	409.8	674.6
Interest bearing liabilities	(6,069.2)	(6,566.4)
Derivative financial instruments (net)	(41.8)	43.8
Net borrowings	(5,701.2)	(5,848.0)
Net assets attributable to AusNet Services Securityholders	3,444.6	3,351.9

Rounding differences exist.

- 51 The reduction in net assets as at 30 September 2014 compared to the position as at 31 March 2014 reflects the small loss for the period (due to tax charges) and the distribution to AusNet Services Securityholders of 4.18 cents per AusNet Services Stapled Security.

AusNet Services Stapled Securities

- 52 As at 30 September 2014 AusNet Services had 3.425 billion AusNet Services Stapled Securities on issue. The following chart illustrates the listed market price of these securities from 1 January 2013 to 19 March 2015:



Source: Bloomberg.

- 53 Consistent with elevated demand for infrastructure assets and/or high dividend paying companies generally, the AusNet Services Stapled Securities price has increased reasonably consistently since 1 January 2013. Based on the closing market price of \$1.405 per AusNet Services Stapled Security on 19 March 2015, the market capitalisation of AusNet Services was approximately \$4.9 billion.

Distribution history

- 54 The total distributions paid on AusNet Services Stapled Securities over recent years (and the composition of those distributions) is shown below:

Distributions (A\$ cents per AusNet Services Stapled Security) ¹				
Financial year ended 31 March	Fully franked dividend	Tax deferred return of capital	Interest income	Total distribution
FY10	2.88	0.972	4.148	8.00
FY11	2.92	0.569	4.507	8.00
FY12	2.66	0.962	4.372	8.00
FY13	2.74	0.350	5.116	8.20
FY14	2.79	0.799	4.775	8.36
6 months to 30 Sep 14	2.20	-	1.980	4.18

Note:

- 1 The distributions for each financial year reflect the interim and final distributions paid for each financial year.

- 55 On 22 October 2014 AusNet Services reiterated its distribution guidance for FY15 at 8.36 cents per AusNet Services Stapled Security. Further, AusNet Services stated that a higher proportion of distributions in future would be paid as fully franked dividends, reflecting the outcome of the settlement with the ATO relating to the Division 974 tax audit and related reviews.

IV Evaluation of the Proposal

Summary of opinion

- 56 In our opinion the Proposal is in the best interests of AusNet Services Securityholders. We have formed this opinion primarily because, in our view, the advantages of the Proposal outweigh the disadvantages.
- 57 The impact of the Proposal on AusNet Services and AusNet Services Securityholders, and a summary of the advantages and disadvantages is set out below.

Impact on underlying business and ownership

- 58 The underlying business of AusNet Services (being its electricity transmission, electricity distribution, gas distribution and Select Solutions businesses) will not change as a result of the Proposal.
- 59 Further, the economic interest of AusNet Services Securityholders in AusNet Services will also not change as a result of the Proposal.

Taxation implications for AusNet Services

- 60 Up until 31 March 2014, AusNet Services' financial statements (and tax returns) were prepared on the basis that interest expenses on AusNet Services Trust Loans were deductible for taxation purposes.
- 61 However, as noted in AusNet Services' 2014 Annual Report, the ATO has been conducting an audit of AusNet Services' intra-group financing arrangements. The ATO's position is that the interest payments made by AusNet Services Transmission and AusNet Services Distribution on the AusNet Services Trust Loans are not deductible for tax purposes.
- 62 On 4 March 2015, AusNet Services entered into a settlement deed with the ATO in relation to these intra-group financing arrangements. Pursuant to the terms of the settlement, AusNet Services agreed to make a cash payment of \$25.0 million⁶ to the ATO and agreed to cancel carried forward tax losses amounting to \$506.5 million. As part of the settlement AusNet Services also agreed to cease claiming interest deductions for tax purposes on the AusNet Service Trust Loans from 1 April 2014.
- 63 From 1 April 2014 the current structure (if maintained) would therefore result in AusNet Services Securityholders being taxed on any interest income received by the AusNet Services Trust, without any corresponding tax deduction being able to be claimed by AusNet Services Transmission and AusNet Services Distribution for interest paid on the AusNet Services Trust Loans. In light of the settlement deed, the current structure is therefore very tax inefficient given the inter-group nature of the AusNet Services Trust Loans.
- 64 In contrast, if the Proposal is implemented AusNet Services will be able to form a tax consolidation group which will result in the AusNet Services Trust Loans being ignored for taxation purposes.

⁶ Comprising a primary tax payment of \$23.5 million and an interest charge of \$1.5 million.

- 65 In our view the proposed structure is therefore more appropriate from a tax perspective than the existing structure, as it eliminates the differential tax treatment of interest on the AusNet Services Trust Loans between the entities whose securities comprise the current AusNet Services Stapled Securities.

Cancellation of tax losses

- 66 AusNet Services currently has income tax losses totalling \$586 million⁷. A majority of these losses (\$510 million) were incurred prior to AusNet Services' initial public offering in 2005 and can only be utilised if AusNet Services continues to comply with the "same business test" under Australian tax law.
- 67 If the Proposal is implemented AusNet Services will no longer comply with the same business test and these pre-2005 tax losses will be cancelled. AusNet Services will need to write down deferred tax assets in its financial statements by \$153 million (being 30% of \$510 million)⁸.
- 68 In the absence of the Proposal, it is estimated that these tax losses could be utilised by AusNet Services over a period of 11 years. Using a discount rate of 15% per annum⁹, the net present value of the potential benefit arising from the tax losses is estimated at \$61 million. The value of the tax losses lost as a result of the Proposal has therefore been assessed by LEA at \$61 million.

Tax benefit from tax consolidation

- 69 However, the loss of the above tax losses is offset by the expected benefit arising from the uplift in AusNet Services' asset values for tax purposes. This asset value uplift should arise from the formation by AusNet Services of a single tax consolidation group (which is made possible by the Proposal).
- 70 Preliminary valuation work undertaken by AusNet Services, in conjunction with external advisers, is that the potential uplift in asset values is some \$809 million. Based on this level of asset value uplift and the corporate tax rate of 30%, AusNet Services expects to be able to recognise a deferred tax benefit of up to \$243 million (being 30% of \$809 million)¹⁰ in its financial statements. This benefit will be realised over time through an increase in allowable tax depreciation charges, estimated by AusNet Services' management at \$32.4 million per annum. These higher tax depreciation charges will result in a cash tax saving of approximately \$9.7 million per annum.
- 71 The present value of these future cash tax savings has been estimated by LEA at \$63 million using a discount rate of 15% per annum.
- 72 Accordingly, the value of the future tax benefit arising from tax consolidation (which is made possible by the Proposal) is expected to offset the value of the tax losses which will be lost.

⁷ The tax loss position is shown as at 30 September 2014 and is net of the cancellation of \$506.5 million in tax losses arising from the recent settlement with the ATO in relation to AusNet Services' intra-group financing arrangements.

⁸ For accounting purposes the benefit attributed to tax losses has not been discounted to allow for the time value of money or the risks associated with utilisation of the tax losses.

⁹ This discount rate reflects the greater uncertainty associated with the utilisation of tax losses

¹⁰ The tax benefits arising from the higher tax value attributed to assets is not discounted for accounting purposes.

Impact on distributions

- 73 We set out in Appendix C the FY14 pro-forma result of AusNet Services:
- (a) under the existing structure, but adjusted for the on-going additional tax impost¹¹ that arises as a result of the ATO settlement regarding inter-group funding arrangements; and
 - (b) under the proposed new structure, which recognises that no interest deduction will be received on the AusNet Services Trust Loans as they will be repaid.
- 74 The analysis in Appendix C indicates that the long term profitability¹² of AusNet Services will not be impacted by the Proposal. However:
- (a) the composition of future distributions will change significantly. Under the proposed new structure, AusNet Services Securityholders will only receive dividends. Accordingly, distributions will no longer include an interest and deferred capital component
 - (b) AusNet Services' ability to distribute franking credits under the existing structure will be significantly constrained. This is because AusNet Services Transmission and AusNet Services Distribution will not generate sufficient profits¹³ to enable available franking credits to be utilised¹⁴. In contrast, the analysis in Appendix C indicates that available franking credits can largely be distributed under the proposed new structure.
- 75 As a result of (b) above, in our view, the gross income (including attached franking credits) which can be distributed to AusNet Services Securityholders will be greater under the proposed new structure in the long term¹⁵. Australian resident Securityholders will therefore be better off in the long term compared to their position if the existing structure is maintained.
- 76 However, it should be noted that investors who cannot fully utilise the franking credits attached to AusNet Services distributions may receive a lower after tax distribution under the Proposal (primarily due to the loss of tax losses to shield tax payments by AusNet Services, and also the fact that distributions will no longer include a deferred capital component).

Other implications of retaining the existing structure

- 77 The different tax treatment of interest expenses and interest income¹⁶ on the AusNet Services Trust Loans under the existing structure is not sustainable in the long-term. Accordingly, if the existing stapled structure is retained, AusNet Services may decide at a later date to convert

¹¹ Ignoring the impact of any carried forward tax losses, so that the analysis considers the long term impact.

¹² Ignoring the impact of current tax losses.

¹³ A dividend can only be franked if it is paid out of current profits or retained earnings. In order to consider the long term impact on the utilisation of available franking credits under the existing structure we have undertaken our analysis based on profits only.

¹⁴ This is largely due to the interest payments made to the AusNet Services Trust which will not be deductible for tax purposes.

¹⁵ Ignoring the impact of current tax losses.

¹⁶ Interest income generated by the AusNet Services Trust is distributed to Securityholders and taxable in their hands, whereas interest expenses on the AusNet Services Trust loan will no longer be deductible.

the AusNet Services Trust Loans to equity in order to resolve the differential tax treatment of the AusNet Services Trust Loans.

- 78 However, such a structure would not obtain the other benefits of the Proposal (e.g. ability to enter into a tax consolidated group, allowable depreciation uplift, elimination of stapled security structure, etc).

Tax implications for Securityholders upon implementation

- 79 To implement the Proposal, Eligible Securityholders will exchange their AusNet Services Stapled Securities for an equal number of NewCo Shares. This exchange may have tax consequences for some Securityholders, and accordingly we recommend that Securityholders read the taxation advice set out in Sections 4 and 5 of the Securityholder Booklet.
- 80 In summary, AusNet Services has applied for a class ruling from the ATO on behalf of Australian tax resident Securityholders regarding the income tax treatment of the Proposal. If the class ruling is obtained, it will confirm that rollover relief will be available in respect of the NewCo Shares issued under the Proposal¹⁷. The class ruling will only apply to Securityholders that hold their AusNet Services Stapled Securities on capital account for tax purposes.
- 81 At the date of this report it is expected that the class ruling will be obtained as outlined above, which will mean that no capital gains tax liability will be payable by Securityholders to which the class ruling applies (provided they correctly elect rollover relief in their tax returns).
- 82 Resident Securityholders who hold their AusNet Services Stapled Securities on revenue account may be required to pay tax on any gain or loss based on the market value of the NewCo Shares received upon implementation depending on their specific circumstances.
- 83 Securityholders who are non-residents will need to consider both Australia income tax implications and the tax implications in their own jurisdiction. Accordingly, taxation liabilities may be crystallised for non-resident Securityholders and resident Securityholders who hold their AusNet Services Stapled Securities on revenue account.
- 84 It should also be noted that the impact of the Proposal on the tax position of Securityholders depends on the individual circumstances of each investor. Securityholders should read Sections 4 and 5 of the Securityholder Booklet and consult their own professional advisers if in doubt as to the taxation consequences of the Proposal.

Other advantages

- 85 The Proposal has a number of other benefits, including:
- (a) simplified financial reporting, compliance and regulatory obligations for AusNet Services, which will allow for some head office cost savings to be achieved due to reduced administrative complexity
 - (b) the creation of a more flexible group structure for the purpose of achieving stated business objectives, including improving the ability to raise further capital if required

¹⁷ Rollover relief may be available even if a class ruling is not received.

- (c) the potential for improved investment demand for AusNet Services securities as a result of creating a simplified and more transparent ownership structure that should have greater appeal to a broader range of investors (particularly foreign investors who are less familiar with stapled security structures).

Transaction costs

- 86 AusNet Services has estimated that one-off costs of approximately \$6.0 million will be incurred in connection with the Proposal. This estimate includes the cost associated with convening the Meetings, seeking the consent of the Court, adviser fees and financial, legal, accounting and other costs.
- 87 By the date of the Meetings to consider and vote on the Proposal it is estimated that the significant majority of these costs will have been incurred. Accordingly, only a small proportion of total costs will be saved if the Proposal is not approved.

Impact on Ineligible Foreign Securityholders

- 88 Restrictions in certain foreign countries make it impractical or unlawful to offer or receive securities in those countries. Accordingly, some foreign Securityholders will not be eligible to receive NewCo shares.
- 89 Section 1.13 of the Securityholder Booklet sets out the foreign jurisdictions in which foreign Securityholders are eligible to receive NewCo Shares. AusNet Services' management have advised that it is expected that not more than 0.5% of AusNet Services Securityholders will be Ineligible Foreign Securityholders.
- 90 All Ineligible Foreign Securityholders will have their AusNet Service Stapled Securities transferred to a Sale Nominee, who will sell the NewCo Shares received and remit the proceeds (together with any dividends received by the Sale Nominee) to Ineligible Foreign Securityholders.
- 91 Ineligible Foreign Securityholders will therefore be divested of their AusNet Services Stapled Securities¹⁸, which may crystallise tax liabilities.

Summary of advantages and disadvantages

- 92 Based on the above, we summarise below the advantages and disadvantages of the Proposal.

Advantages

- 93 AusNet Services has agreed with the ATO (following an audit of AusNet Services' intergroup funding arrangements) that it will no longer claim interest tax deductions on intergroup loans from the AusNet Services Trust. As interest income on these loans will still be assessable for tax purposes, the existing structure is very tax inefficient. However, the different tax treatment of interest income and interest expenses on intergroup loans will not occur under the proposed new structure.

¹⁸ Ineligible Foreign Securityholders will be able to buy-back NewCo shares on-market following the implementation date. However, transaction costs will be incurred and tax liabilities may be incurred. The buy-back price may also differ from the sale price.

- 94 AusNet Services' ability to distribute franking credits under the existing structure will be significantly constrained as a result of the agreement with the ATO. This is because AusNet Services Transmission and AusNet Services Distribution will not generate sufficient profits¹⁹ to enable available franking credits to be utilised²⁰. In contrast, the analysis in Appendix C indicates that available franking credits can largely be distributed under the proposed new structure.
- 95 Due to the constraints associated with distributing franking credits under the existing structure, in our view, the gross income (including attached franking credits) which can be distributed to AusNet Services Securityholders will be greater under the proposed new structure in the long term.
- 96 AusNet Services expects to receive an uplift in its asset values for tax purposes under the proposed structure. This will result in higher depreciation charges for tax purposes, reducing tax liabilities. The present value of this benefit has been estimated by LEA at \$63 million.
- 97 The proposed structure will simplify financial reporting, compliance and regulatory obligations, which should result in cost savings estimated at \$0.9 million per annum.
- 98 The simplified and more transparent ownership structure is likely to have a greater appeal to a broader range of investors (particularly foreign investors who are less familiar with stapled security structures).
- 99 The proposed structure provides AusNet Services with more funding flexibility, including an improved ability to retain earnings to pursue growth opportunities and an increase in allowable tax depreciation charges.

Disadvantages

- 100 AusNet Services will lose some \$510 million in tax losses (valued by us at their present value of \$61 million) as a result of the Proposal.
- 101 Investors who cannot fully utilise the franking credits attached to AusNet Services distributions may receive a lower after tax distribution under the Proposal (primarily due to the loss of tax losses to shield tax payments by AusNet Services, and also the fact that distributions will no longer include a deferred capital component). Taxation liabilities may be crystallised for non-resident Securityholders, and resident Securityholders who hold their AusNet Services Stapled Securities on revenue account.
- 102 Transaction costs of approximately \$6.0 million will be incurred in connection with the Proposal. However, the significant majority of these costs will be incurred by the date of the Scheme Meeting and General Meeting (Meetings) to vote on the Proposal. Accordingly, the level of costs which will be saved if the Proposal is not approved will be relatively small.

¹⁹ A dividend can only be franked if it is paid out of current profits or retained earnings. In order to consider the long term impact on the utilisation of available franking credits under the existing structure we have undertaken our analysis based on profits as distributions reliant on retained earnings are not sustainable in the long term.

²⁰ This is largely due to the interest payments made to the AusNet Services Trust which, under the existing structure, will not be deductible for tax purposes.

- 103 Ineligible Foreign Securityholders²¹ expected to represent no more than 0.5% of AusNet Services Securityholders will not be eligible to receive NewCo Shares. As a result, their NewCo shares will be sold on their behalf.

Other matters

- 104 It should also be noted that the underlying business of AusNet Services (being its electricity transmission, electricity distribution, gas distribution and Select Solutions businesses) will not change as a result of the Proposal. Further, the economic ownership interest of Securityholders in AusNet Services will also not change as a result of the Proposal.

²¹ A Foreign Securityholder who is not an Eligible Foreign Securityholder.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Securityholder Booklet to be sent to AusNet Services Securityholders in connection with the Proposal.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$60,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Craig Edwards and Mr Wayne Lonergan, who are each authorised representatives of LEA. Mr Edwards and Mr Lonergan have over 20 years and over 35 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the AusNet Services Directors to accompany the Securityholder Booklet to be sent to AusNet Services Securityholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposal is in the best interests of AusNet Services Securityholders.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Lonergan have any interest in the outcome of the Proposal. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with AusNet Services or NewCo prior to the preparation of this report other than the provision of valuation advice in relation to a tax dispute.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, AusNet Services agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of AusNet Services which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Securityholder Booklet.

Appendix C

Impact of Proposal on profit and potential distributions

Impact of Proposal on FY14 profit and potential distributions (adjusted for additional tax impost due to ATO settlement)						
	FY14 adjusted for additional tax impost Assuming existing structure maintained			FY14 adjusted for additional tax impost Under proposed new structure		
	Ausnet Services Trust \$m	Ausnet Services & Distribution \$m	Total \$m	Ausnet Services Trust \$m	Ausnet Services & Distribution \$m	Total \$m
Revenue	-	1,799.4	1,799.4	-	1,799.4	1,799.4
Expenses	-	(1,094.0)	(1,094.0)	-	(1,094.0)	(1,094.0)
EBIT before significant items	-	705.4	705.4	-	705.4	705.4
Net interest	161.4	(503.7)	(342.3)	-	(342.3)	(342.3)
Profit before tax and significant items	161.4	201.7	363.1	-	363.1	363.1
Taxation expenses (before significant items)	-	(106.2)	(106.2)	-	(106.2)	(106.2)
Profit after tax before significant items ⁽¹⁾	161.4	95.5	256.9	-	256.9	256.9
Significant items (net of tax)	-	(127.1)	(127.1)	-	(127.1)	(127.1)
Profit after tax	161.4	(31.6)	129.8	-	129.8	129.8

Note:

1 Profit after tax before significant items comprises:	\$m	\$m
Adjusted net profit after tax (as reported on page 33 of annual report)	305.4	305.4
Additional tax from not being able to obtain a deduction for interest on Trust loans	(48.5)	-
Additional tax due to repayment of loans under Restructure	-	(48.5)
Profit before tax and significant items	256.9	256.9
2 Reconciliation of taxation expense	\$m	\$m
Taxation expense in FY14 financial statements	127.1	127.1
Significant items:		
Tax charge in relation Section 163AA dispute	(86.7)	(86.7)
Tax benefit on termination expenses	17.3	17.3
	57.7	57.7
Additional tax from not being able to obtain a deduction for interest on Trust loans	48.5	-
Additional tax due to repayment of loans under Restructure	-	48.5
Pro-forma tax expense	106.2	106.2

3 The impact of tax losses has been ignored in order to show the long term impact on profitability and potential distributions.

Maximum gross distribution on an on-going basis (assuming the distribution is not paid out of carried forward retained earnings):

Based on profit after tax before significant items	161.4	95.5	256.9	-	256.9	256.9
Franking credit utilised		40.9	40.9		106.2	106.2
Gross distribution			297.8			363.1

Note: under existing structure franking credits are trapped.

Appendix D

Glossary

Term	Meaning
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AusNet Services	AusNet Services, comprising AusNet Services Distribution, AusNet Services Transmission and AusNet Services Trust
AusNet Services Distribution	AusNet Services (Distribution) Ltd
AusNet Services Securityholder or Securityholder	A person who is registered as the holder of AusNet Services Stapled Securities or as the holder of NewCo Shares, as the case may be
AusNet Services Stapled Securities	An AusNet Services Transmission share, an AusNet Services Distribution share and a AusNet Services Trust unit which are stapled such that they can only be dealt with together
AusNet Services Transmission	AusNet Services (Transmission) Ltd
AusNet Services Trust	AusNet Services Finance Trust
AusNet Services Trust Loans	The financial accommodation provided by AusNet Services Trust to each of AusNet Services Distribution and AusNet Services Transmission
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Corporations Regulations	<i>Corporations Regulations 2001</i>
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax depreciation and amortisation
Eligible Securityholders	Each security holder recorded on the record date who is not a Foreign Securityholder, each Eligible Foreign Securityholder recorded on the Record Date, and the Sale Nominee (in respect of AusNet Services Stapled Securities held by ineligible Foreign Securityholders on the Record Date)
Eligible Foreign Securityholder	A Foreign Securityholder in relation to whom AusNet Services has determined that it is lawful and not unduly onerous or unduly impracticable for the relevant Foreign Securityholder to receive NewCo Shares under the Proposal.
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
IER	Independent expert's report
Ineligible Foreign Securityholders	A Foreign Securityholder who is not an Eligible Foreign Securityholder
LEA	Loneragan Edwards & Associates Limited
Meetings	Scheme Meeting and General Meeting
NewCo	The new holding company securityholders will receive shares under the Proposal which is to be called AusNet Services Ltd
NewCo share	A fully paid ordinary share in NewCo
NPV	Net present value
PE	Price earnings
Proposal	The proposal described in paragraph 2 and Section I by which AusNet Services is restructuring and simplifying its existing structure
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
VWAP	Volume weighted average price

**KPMG Transaction Services**

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The Directors
AusNet Services (Distribution) Ltd
AusNet Services (Transmission) Ltd
AusNet Services (RE) Ltd as Responsible Entity of
AusNet Services Finance Trust
Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006

The Directors
AusNet Services Limited
Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006

22 April 2015

Dear Directors

Limited Assurance Investigating Accountant’s Report and Financial Services Guide

Investigating Accountant’s Report

Introduction

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) (“KPMG Transaction Services”) has been engaged by AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd, AusNet Services (RE) Ltd as Responsible Entity of AusNet Services Finance Trust (“AusNet Services”) and AusNet Services Limited (“NewCo”) to prepare this report for inclusion in the securityholder booklet comprising an Explanatory Statement and Notice of Meeting to be dated 22 April 2015 (“Securityholder Booklet”) in respect of the proposed corporate restructure of AusNet Services (“Proposal”).

Expressions defined in the Securityholder Booklet have the same meaning in this report.

Scope

You have requested KPMG Transaction Services to perform a limited assurance engagement in relation to the pro forma historical financial information of NewCo described below and disclosed in the Securityholder Booklet:

- the pro forma historical Statement of Financial Position as at 30 September 2014; and
- the pro forma historical Statement of Cash Flows for the year ended 31 March 2014 and for the six month period ended 30 September 2014;

KPMG Financial Advisory Services (Australia) Pty Ltd is affiliated with KPMG. KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

(together the “Pro Forma Historical Financial Information”).

The Pro Forma Historical Financial Information is presented in the Securityholder Booklet in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards, International Financial Reporting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

Our limited assurance engagement has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside of Australia, including Singapore or the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Pro Forma Historical Financial Information

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the Pro Forma Historical Financial Information of NewCo (the responsible party) included in the Securityholder Booklet.

The Pro Forma Historical Financial Information has been derived from the historical financial information of AusNet Services, after adjusting for the effects of pro forma adjustments described in sections 3.3 and 3.5 of the Securityholder Booklet.

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards and International Financial Reporting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section 3.2 of the Securityholder Booklet. Due to its nature, the Pro Forma Historical Financial Information does not represent NewCo's actual or prospective financial position or financial performance.

The Pro Forma Historical Financial Information has been compiled by NewCo to illustrate the impact of the event(s) or transaction(s) on NewCo's financial position as at 30 September 2014 and NewCo's cash flows for the year ended 31 March 2014 and for the six month period ended 30 September 2014. As part of this process, information about NewCo's financial position and cash flows has been extracted by NewCo from the AusNet Services (Distribution) Ltd combined financial statements for the financial year ended 31 March 2014 and for the six month period ended 30 September 2014 (“Historical Financial Information”).

The combined financial statements of AusNet Services (Distribution) Ltd for the year ended 31 March 2014 were audited by KPMG, and for the six month period ended 30 September 2014 were reviewed by KPMG in accordance with Australian Auditing Standards and International Financial Reporting Standards. The audit opinion issued to the members of AusNet Services relating to the year ended 31 March 2014 combined financial statements was unqualified. The review opinion issued to the members of AusNet Services relating to the six month period ended 30 September 2014 combined financial statements was unqualified.

As stated in section 3.2 of the Securityholder Booklet, the stated basis of preparation is:

- the extraction of historical financial information from the combined financial statements of AusNet Services (Distribution) Ltd for the year ended 31 March 2014 and for the six month period ended 30 September 2014; and
- the application of pro forma adjustments, determined in accordance with Australian Accounting Standards, International Financial Reporting Standards and AusNet Services' accounting policies, to the Historical Financial Information of AusNet Services to illustrate the effects of the proposed corporate restructure on NewCo described in sections 3.3 and 3.5 of the proposed public document.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

The procedures we performed were based on our professional judgement and included:

Historical Financial Information

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the Historical Financial Information of AusNet Services from its combined financial statements for the year ended 31 March 2014 and for the six month period ended 30 September 2014;

Pro Forma Historical Financial Information:

- consideration of the pro forma adjustments described in the Securityholder Booklet and consideration of supporting working papers;
- enquiry of directors, management, personnel and advisors;
- the performance of analytical procedures applied to the Pro Forma Historical Financial Information; and
- a review of accounting policies for consistency of application in the preparation of the pro forma adjustments.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion about whether the Pro Forma Historical Financial Information is prepared, in all material respects, by the directors in accordance with the stated basis of preparation.

Directors' responsibilities

The directors of AusNet Services are responsible for the preparation of the Pro Forma Historical Financial Information, including the selection and determination of the pro forma transactions

and/or adjustments, and for properly compiling the Pro Forma Historical Financial Information of the basis stated in section 3.2 of the Securityholder Booklet.

The directors' responsibility includes establishing and maintaining such internal controls as the directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Conclusions

Review statement on the Pro Forma Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as set out in sections 3.3 and 3.5 of the Securityholder Booklet, comprising:

- the pro forma historical Statement of Financial Position of NewCo as at 30 September 2014; and
- the pro forma historical Statement of Cash Flows of NewCo for the year ended 31 March 2014 and for the six month period ended 30 September 2014,

is not prepared or presented fairly, in all material respects, in accordance with the stated basis of preparation described in section 3.2 of the Securityholder Booklet, and in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, International Financial Reporting Standards and AusNet Services' accounting policies.

Independence

KPMG Transaction Services does not have any interest in the outcome of the proposed corporate restructure, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of AusNet Services and from time to time, KPMG also provides AusNet Services with certain other professional services for which normal professional fees are received.

General advice warning

This report has been prepared, and included in the Securityholder Booklet, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Restriction on use

Without modifying our conclusions, we draw attention to section 3.1 of the Securityholder Booklet, which describes the purpose of the financial information, being for inclusion in the Securityholder Booklet. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report,

or on the financial information to which it relates, for any purpose other than that for which it was prepared.

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Securityholder Booklet in the form and context in which it is so included, but has not authorised the issue of the Securityholder Booklet. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Securityholder Booklet.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'N Harridge', with a stylized flourish at the end.

Nick Harridge
Authorised Representative

**KPMG Transaction Services**

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Financial Services Guide Dated 22 April 2015

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) (**'KPMG Transaction Services'**), and Nick Harridge as an authorised representative of KPMG Transaction Services, authorised representative number 405346.

This FSG includes information about:

- KPMG Transaction Services and its Authorised Representative and how they can be contacted
- the services KPMG Transaction Services and its Authorised Representative are authorised to provide
- how KPMG Transaction Services and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant's Report (Report) which has been prepared for inclusion in a Securityholder Booklet of AusNet Services. The purpose of the Securityholder Booklet is to help you make an informed decision in relation to a proposal. The contents of the Securityholder Booklet, will include details such as the risks, benefits and costs of voting in favour of the proposal.

Capitalised terms that are not defined in the FSG have the meaning given to them in the Securityholder Booklet.

Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investments schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

KPMG Financial Advisory Services (Australia) Pty Ltd is affiliated with KPMG. KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction Services' behalf.

KPMG Transaction Services and the Authorised Representative's responsibility to you

KPMG Transaction Services has been engaged by AusNet Services (Client) to provide general financial product advice in the form of a Report to be included in the Securityholder Booklet (Document) prepared by AusNet Services in relation to the Proposal.

You have not engaged KPMG Transaction Services or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Transaction Services nor the Authorised Representative are acting for any person other than the Client.

KPMG Transaction Services and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Transaction Services has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Proposal.

Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to

pay KPMG Transaction Services \$450,000 for preparing the Report. KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Transaction Services officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Transaction Services nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of audit, tax and advisory services to the Client for which professional fees are received. Over the past two years professional fees of \$4.8 million have been received from the Client. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Transaction Services or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO
Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services
A division of KPMG Financial Advisory
Services (Australia) Pty Ltd
10 Shelley St
Sydney NSW 2000
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Nick Harridge
147 Collins Street
Melbourne VIC 3000
Telephone: (03) 9288 6067

Annexure C – Terms of the AusNet Services Transmission Scheme

This Annexure C sets out the terms of the AusNet Services Transmission Scheme.

Scheme of Arrangement

Scheme made under section 411 of the Corporations Act 2001.

Between		
Transmission	Name	AusNet Services (Transmission) Ltd
	ACN	116 124 362
	Address	Level 31, 2 Southbank Boulevard, Southbank, Victoria, 3006
	Fax	+61 3 9695 6307
	Attention	General Counsel and Company Secretary
Transmission Shareholder	Name	Each person registered as a holder of fully paid ordinary shares in AusNet Services (Transmission) Ltd on the Record Date and the Implementation Date

1 Definitions and interpretation

1.1 Definitions

In this Scheme:

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or Australian Securities Exchange, as appropriate.

ATO means the Australian Taxation Office.

Attached Security means a Security which is from time to time Stapled or to be Stapled to a Transmission Share, a Distribution Share or a Unit.

AusNet Services means the triple-Stapled entity consisting of Transmission, Distribution and Finance.

Business Day means a business day within the meaning given to that term in the Listing Rules.

CHESS means the Clearing House Electronic Subregister System for the electronic transfer of securities, operated by ASX Settlement Pty Ltd ABN 49 008 504 532.

Company Scheme means either of the Transmission Scheme or Distribution Scheme, and **Company Schemes** means both of them.

Consolidated NewCo Share means a share in NewCo on issue immediately subsequent to the conversion of NewCo Shares into that number of NewCo Shares equal to the number of Stapled Securities that had been on issue at the Record Date.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Supreme Court of Victoria.

Distribution means AusNet Services (Distribution) Ltd (ACN 108 788 245).

Distribution Constitution means the constitution of Distribution.

Distribution Scheme means the scheme of arrangement pursuant to Part 5.1 of the Corporations Act between Distribution and the Distribution Shareholders, substantially in the form annexed to the Securityholder Booklet, together with any alterations or conditions made by Distribution to which NewCo agrees or made or required by the Court under section 411(6) of the Corporations Act, or otherwise desirable or necessary to comply with applicable law.

Distribution Share means one fully paid ordinary share issued in the capital of Distribution.

Distribution Shareholder means a person registered as the holder of a Distribution Share, including any person jointly registered and **Distribution Shareholders** means all of them.

Effective means all of the following events taking place:

- in relation to each of the Company Schemes, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) but in any event at no time before an office copy of the orders of the Court is lodged with ASIC; and
- in relation to the Trust Scheme, the Trust Constitution Amendments coming into effect pursuant to section 601GC(2) of the Corporations Act.

Effective Date means the earliest date on which all of the Schemes become Effective.

Effective Time means the earliest time and date on which all of the Schemes become Effective.

Eligible Securityholder means the Scheme Participants (other than Ineligible Foreign Securityholders) and the Sale Nominee in respect of the Ineligible Securities.

Encumbrance means any security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement and any "security interest" as defined in sections 12(1) or (2) of the PPSA, or any agreement to create any of them or allow them to exist.

End Date means 30 September 2015 or such other date as agreed by the parties to the Implementation Deed.

Foreign Securityholder means a Securityholder at 7.00pm on the Record Date:

- who is (or who is acting on behalf of) a citizen or resident of a place outside Australia and its external territories; or
- whose address shown in the Stapled Security Register is a place outside Australia and its external territories (or who is acting on behalf of such a person).

Government Agency means any government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, bureau, tribunal, agency or entity in any part of the world and includes ASX, ASIC and ATO.

Implementation means the completion of all the Implementation Steps in accordance with clause 5.1 of the Implementation Deed.

Implementation Date means the date on which Implementation occurs, being a date no later than the eighth Business Day after the Effective Date (or such other date as the parties to the Implementation Deed may agree).

Implementation Deed means the Implementation Deed dated 14 April 2015 between Transmission, Distribution, the Trustee as responsible entity of the Trust and NewCo.

Implementation Step means each of the steps set out in Schedule 1 of the Implementation Deed.

Ineligible Distribution Share has the meaning given in clause 5.2.

Ineligible Foreign Securityholder has the meaning given in clause 5.2.

Ineligible Securities means Ineligible Transmission Shares, Ineligible Distribution Shares and Ineligible Units.

Ineligible Transmission Share has the meaning given in clause 5.2.

Ineligible Unit has the meaning given in clause 5.2.

Listing Rules means the Listing Rules of ASX and any other rules of ASX which are applicable to any of Transmission, the Trust or Distribution, subject to any waiver or exemption granted to Transmission, the Trust or Distribution from compliance with those rules.

NewCo means AusNet Services Ltd (ACN 603 317 559).

NewCo Constitution means the constitution of NewCo.

NewCo Deed Poll means the deed poll under which NewCo covenants in favour of each Eligible Securityholder and each Ineligible Foreign Securityholder to perform acts attributed to it under the Schemes, signed on or about the date of the Implementation Deed.

NewCo Shares means fully paid ordinary shares in NewCo.

Proposal means the proposed restructure of AusNet Services, pursuant to which NewCo would be established as the ultimate parent with the Stapled Entities becoming wholly owned entities of NewCo, as described in the Securityholder Booklet (including the Schemes).

Record Date means the third Business Day following the Effective Date, or such other date as agreed by the parties to the Implementation Deed.

Register means the Transmission member register established and maintained by or on behalf of Transmission in accordance with the Transmission Constitution.

Registry means Computershare Investor Services Pty Limited (ABN 48 078 279 277).

Relevant Sale Facility Consideration means, in relation to each Ineligible Foreign Securityholder, an amount equal to the average price at which Sale Securities are sold by the Sale Nominee under the Sale Facility plus any dividend received per Sale Security, multiplied by the corresponding number of Ineligible Securities (calculated as a Stapled Security) of that Ineligible Foreign Securityholder, less any reasonable applicable brokerage, stamp duty and other selling costs, taxes and charges (to the extent not met by Transmission, Distribution and the Trustee) (subject to rounding to the nearest whole cent or, if the amount calculated is exactly half a cent, subject to rounding down to the nearest whole cent).

Sale Facility means the facility to be established and implemented by Transmission, in agreement with Distribution and the Trustee, under which Ineligible Transmission Shares (along with Ineligible Distribution Shares and Ineligible Units) are transferred to the Sale Nominee and Sale Securities are sold on ASX in accordance with clause 7 of this Scheme.

Sale Facility Account means the account established by the Sale Nominee in its own name, into which the Sale Nominee must deposit the gross sale proceeds received in respect of the Sale Securities.

Sale Nominee means the entity appointed by Transmission, Distribution and the Trustee to act as the sale facility nominee under the Schemes.

Sale Period means the 29 day period commencing on the date on which Consolidated NewCo Shares commence trading on a normal (T+3) settlement basis.

Sale Security means a Consolidated NewCo Share held by the Sale Nominee following participation by the Sale Nominee in the implementation of the Proposal in respect of the Ineligible Securities that is, or is to be, sold under the Sale Facility.

Scheme or **Transmission Scheme** means this scheme of arrangement.

Scheme Meeting means the meeting of shareholders convened by order of the Court in relation to this Scheme pursuant to section 411(1) of the Corporations Act, and includes any adjournment of such meeting.

Scheme Participant means a Securityholder at 7.00pm on the Record Date, and **Scheme Participants** means all of them.

Schemes means all of the Transmission Scheme, Distribution Scheme and the Trust Scheme.

Second Court Date means the date on which the Court makes orders pursuant to section 411(4)(b) of the Corporations Act approving the Company Schemes.

Security has the meaning given to that term in section 92(1) of the Corporations Act.

Securityholder means a person who is registered in the Stapled Security Register as the holder of Stapled Securities who is also relevantly a Transmission Shareholder, Distribution Shareholder or Unit Holder, whether together as the holder of Stapled Securities or separately as the context may require, and **Securityholders** means all of them.

Securityholder Booklet means the notices of meeting, explanatory statement and accompanying materials in connection with the Proposal dated 22 April 2015 despatched to the Securityholders.

Staple, Stapled or **Stapling** means, in relation to one or more Attached Securities, being linked together so that one may not be dealt with without the other or others.

Stapled Entity means any trust, corporation, managed investment scheme or other entity the Securities in which are Stapled, being Transmission, Distribution and the Trust.

Stapled Entity's Constitution means the constitution of a Stapled Entity, being the Transmission Constitution, the Distribution Constitution and the Trust Constitution.

Stapled Security means a Transmission Share, a Distribution Share and a Unit which are Stapled together.

Stapled Security Register means the register of Stapled Securities established and maintained by or on behalf of Transmission, Distribution and the Trustee in accordance with the Stapled Entity's Constitutions.

Subscription Form means a duly completed and executed proper instrument of subscription for the NewCo Shares, which may be a master subscription form.

Transfer Form means a duly completed and executed proper instrument of transfer for the Transmission Shares for the purposes of section 1071B of the Corporations Act, which may be a master transfer form.

Transmission means AusNet Services (Transmission) Ltd (ACN 116 124 362).

Transmission Constitution means the constitution of Transmission.

Transmission Scheme or **Scheme** means this scheme of arrangement.

Transmission Share means one fully paid ordinary share issued in the capital of Transmission.

Transmission Shareholder means a person registered as the holder of a Transmission Share, including any person jointly registered and **Transmission Shareholders** means all of them.

Trust means AusNet Services Finance Trust (ARSN 116 783 914) constituted under the Trust Constitution.

Trust Constitution means trust deed entitled Constitution – AusNet Services Finance Trust dated 19 July 2004 (as amended).

Trust Constitution Amendments means the amendments to the Trust Constitution to enable the Trust Scheme.

Trust Scheme means the arrangement, in accordance with *Guidance Note 15: Listed Trusts and Managed Investment Scheme Mergers* issued by the Takeovers Panel, under which NewCo acquires all of the Units facilitated by amendments to the Trust Constitution as set out in clauses 24 to 29 of the Trust Constitution.

Trustee means AusNet Services (RE) Ltd (ACN 109 977 371), acting as trustee and responsible entity of the Trust.

Unit means an undivided interest in the Trust as provided for in the Trust Constitution, being one fully paid ordinary unit in the Trust.

Unit Holder means a person registered as the holder of a Unit, including any person jointly registered and **Unit Holders** means all of them.

Unstaple, Unstapled and **Unstapling** means, in relation to one or more Attached Securities, not being Stapled to another Attached Security.

1.2 Reference to certain general terms

Unless the contrary intention appears, a reference in this Scheme to:

- a) **(variations or replacements)** a document, agreement (including this agreement) or instrument is a reference to that document, agreement or instrument as amended, consolidated, supplemented, novated or replaced;
- b) **(clauses, annexures and schedules)** a clause, annexure or schedule is a reference to a clause in or annexure or schedule to this Scheme;
- c) **(reference to statutes)** a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

- d) **(law)** law means common law, principles of equity, and laws made by parliament (and laws made by parliament include State, Territory and Commonwealth laws and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);
- e) **(singular includes plural)** the singular includes the plural and vice versa;
- f) **(party)** a party means a party to this Scheme;
- g) **(person)** the word “person” includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any Government Agency;
- h) **(executors, administrators, successors)** a particular person includes a reference to the person’s executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- i) **(dollars)** Australian dollars, dollars, A\$ or \$ is a reference to the lawful currency of Australia;
- j) **(calculation of time)** a period of time dating from a given day or the day of an act or event, is to be calculated exclusive of that day;
- k) **(reference to a day)** a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- l) **(meaning not limited)** the words “include”, “including”, “for example” or “such as” when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind;
- m) **(holders)** a reference to a holder includes a joint holder; and
- n) **(time of day)** time is a reference to Melbourne time.

1.3 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this Scheme.

2 Preliminary

2.1 Transmission

Transmission is:

- a) a public company limited by shares;
- b) incorporated in Australia and has its registered office at Level 31, 2 Southbank Boulevard, Southbank, Victoria, 3006; and
- c) admitted to the official list of the ASX and Transmission Shares are officially quoted on the stock market conducted by ASX (as one of the securities comprising the Stapled Securities).

2.2 NewCo

NewCo is:

- a) a public company limited by shares; and
- b) incorporated in Australia and has its registered office at Level 31, 2 Southbank Boulevard, Southbank, Victoria, 3006.

2.3 Share capital

- a) As at 22 April 2015, there are 3,466,913,009 Transmission Shares on issue.
- b) As at 22 April 2015, there are 2 NewCo Shares on issue.

2.4 Implementation steps

Transmission acknowledges that under the Implementation Deed, the implementation steps for the Proposal will take place at the times and in the order described in the Implementation Deed, including the Unstapling of the Stapled Securities which will occur immediately before the first of the transfers under clause 5.

3 Conditions precedent

3.1 Conditions precedent

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- a) as at 8.00am on the Second Court Date, the Implementation Deed and NewCo Deed Poll not having been terminated in accordance with their respective terms; and
- b) all of the conditions precedent set out in clause 3.1 of the Implementation Deed (other than any condition precedent that cannot be waived) having been satisfied or waived in accordance with the terms of the Implementation Deed.

3.2 Certificate in relation to conditions precedent

- a) Transmission will provide to the Court at the Court hearing on the Second Court Date a certificate confirming (in respect of matters within its knowledge) whether or not all of the conditions precedent set out in clause 3.1 of this Scheme (other than the condition precedent in clause 3.1(c) of the Implementation Deed) have been satisfied or waived as at 8.00am on the Second Court Date.
- b) The certificate referred to in this clause 3.2 will constitute conclusive evidence of whether the conditions precedent referred to in clause 3.1 of this Scheme (other than the condition precedent in clause 3.1(c) of the Implementation Deed) have been satisfied or waived.

4 Scheme

4.1 Effective Date

Subject to clause 4.2, this Scheme will come into effect pursuant to section 411(10) of the Corporations Act on and from the Effective Date.

4.2 End Date

This Scheme will lapse and be of no further force or effect if the Effective Date does not occur on or before the End Date.

5 Implementation of Scheme

5.1 Lodgement of Court orders with ASIC

If the conditions precedent set out in clause 3.1 of this Scheme are satisfied, Transmission must lodge with ASIC in accordance with section 411(10) of the Corporations Act an office copy of the Court order approving this Scheme as soon as practical after the making of the Court order.

5.2 Determination of Ineligible Foreign Securityholders

- a) After the Record Date and prior to the Implementation Date, Transmission must in agreement with Distribution and the Trustee determine whether a Foreign Securityholder, or a class of Foreign Securityholders, is eligible to have issued to it NewCo Shares.
- b) The determination under clause 5.2(a) is to be made having regard to whether the participation of the Foreign Securityholder in the Proposal would be lawful and not unduly onerous for NewCo or the Stapled Entities under the laws of a place outside Australia and its external territories.
- c) A determination under clause 5.2(a) may specify that a Foreign Securityholder is eligible to participate in respect of some or all of its Stapled Securities (comprising Transmission Shares, Distribution Shares and Units) held at 7.00pm on the Record Date, with or without conditions.
- d) A Foreign Securityholder may only receive NewCo Shares in accordance with the determination under clause 5.2(a) and is not otherwise eligible to receive NewCo Shares in respect of any of its Stapled Securities (comprising Transmission Shares, Distribution Shares and Units). For the purposes of this Scheme:
 - i) each such Foreign Securityholder which is ineligible to receive NewCo Shares in respect of all or some of its Stapled Securities is referred to as an Ineligible Foreign Securityholder;
 - ii) each Transmission Share, Distribution Share and Unit comprising a Stapled Security in respect of which the Ineligible Foreign Securityholder is ineligible to receive NewCo Shares is referred to as an Ineligible Transmission Share, Ineligible Distribution Share or Ineligible Unit; and
 - iii) a reference to an Ineligible Foreign Securityholder only applies in relation to its Ineligible Transmission Shares, Ineligible Distribution Shares or Ineligible Units.
- e) The determination under clause 5.2(a) is final and conclusive of a Foreign Securityholder's eligibility to receive NewCo Shares.

5.3 Transfer to Sale Nominee

- a) After the Record Date and on or prior to the Implementation Date, all of the Ineligible Transmission Shares together with all rights and entitlements attaching to those Ineligible Transmission Shares will be transferred to the Sale Nominee without the need for any further act by any Ineligible Foreign Securityholders (other than acts performed by Transmission (or its directors or officers) as attorney and agent for the Ineligible Foreign Securityholders).
- b) Transmission must procure that the Sale Nominee accepts, the transfer of Ineligible Transmission Shares under clause 5.3(a) by immediately executing the Transfer Form as transferee and delivering it to Transmission for registration.

- c) In order to give effect to the transfer of Ineligible Transmission Shares under clause 5.3(a), Transmission will:
 - i) as attorney and agent for each Ineligible Foreign Securityholder, execute the Transfer Form, which was previously duly completed and executed by the Sale Nominee, to transfer all Ineligible Transmission Shares to the Sale Nominee; and
 - ii) register the transfer of Ineligible Transmission Shares and enter the name of the Sale Nominee in the Register in respect of all Ineligible Transmission Shares transferred under clause 5.3(a).

5.4 Transfer to NewCo

Following the transfers set out in clause 5.3 and subject to the provision of the NewCo Shares in the manner contemplated by clause 6:

- a) on the Implementation Date, all of the Transmission Shares held by Eligible Securityholders together with all rights and entitlements attaching to those Transmission Shares will be transferred to NewCo without the need for any further acts by any Eligible Securityholders (other than acts performed by Transmission (or its directors or officers) as attorney and agent for the Eligible Securityholders);
- b) Transmission must procure that NewCo accepts the transfer of Transmission Shares under clause 5.4(a) by immediately executing the Transfer Form as transferee and delivering it to Transmission for registration;
- c) in order to give effect to the transfer of Transmission Shares under clause 5.4(a), Transmission will:
 - i) as attorney and agent for each Eligible Securityholder, execute the Transfer Form, which was previously duly completed and executed by NewCo, to transfer all Transmission Shares held by the Eligible Securityholders to NewCo; and
 - ii) as soon as possible following receipt of the Transfer Form, register the transfer of Transmission Shares and enter the name of NewCo in the Register in respect of all Transmission Shares transferred under clause 5.4(a).

5.5 Scheme Participants' agreements

Each Scheme Participant agrees to the transfer of all of their Transmission Shares together with all rights and entitlements attaching to those Transmission Shares in accordance with this clause 5 and agrees to any variation, cancellation or modification of their rights constituted by or resulting from this clause 5.

5.6 Scheme Participants' warranties

Each Scheme Participant is taken to have warranted to Transmission and NewCo (and in the case of an Ineligible Foreign Securityholder, to the Sale Nominee), and appointed and authorised Transmission as its attorney and agent to warrant to NewCo (and in the case of an Ineligible Foreign Securityholder, to the Sale Nominee), that:

- a) to the extent permitted by law, the Transmission Shares transferred under this clause 5 will be transferred free from all Encumbrances; and
- b) they have full power and capacity to sell and to transfer their Transmission Shares (including any rights and entitlements attaching to those Transmission Shares) under this Scheme.

Transmission will hold as attorney and agent of each Scheme Participant the benefit of such warranties for NewCo (and in the case of an Ineligible Foreign Securityholder, for the Sale Nominee).

5.7 Title and rights in Transmission Shares

- a) To the extent permitted by law, the Transmission Shares transferred under this clause 5 will be transferred free from all Encumbrances.
- b) NewCo will be beneficially entitled to the Transmission Shares transferred to it under this clause 5 pending registration by Transmission of NewCo in the Register as a Transmission Shareholder.

6 NewCo Shares

6.1 Subscribing for NewCo Shares

- a) In consideration for the transfer of Transmission Shares under clause 5.4(a), each Eligible Securityholder will be entitled to receive 1 NewCo Share for every 1 Transmission Share transferred under this Scheme.
- b) Transmission, as attorney and agent for each Eligible Securityholder, will apply for the number of NewCo Shares to be issued to that Eligible Securityholder under this Scheme.
- c) On the Implementation Date and following the transfers set out in clause 5.3, in order to apply for the issue of NewCo Shares under clause 6.1(b), Transmission will as attorney and agent for each Eligible Securityholder duly complete and execute the Subscription Form in respect of all the NewCo Shares to be issued under this Scheme for the Eligible Securityholders.
- d) Each Eligible Securityholder:
 - i) accepts the NewCo Shares under this Scheme; and
 - ii) agrees to become a member of NewCo and be bound by the NewCo Constitution.

6.2 Issue of NewCo Shares

- a) On the Implementation Date, in consideration for the transfer of Transmission Shares to NewCo, Transmission must procure that NewCo:
 - i) issues the NewCo Shares to each Eligible Securityholder as it is entitled under this Scheme;
 - ii) enters the name and address of each Eligible Securityholder in the NewCo members register in respect of the NewCo Shares to which it is entitled under this Scheme; and
 - iii) ensures that each such NewCo Share is duly and validly issued in accordance with all applicable laws and the NewCo Constitution.
- b) In the case of Transmission Shares held in joint names, the NewCo Shares to be issued under this Scheme must be issued to and registered in the names of the joint holders.
- c) The entitlement of the Ineligible Foreign Securityholders under this Scheme is satisfied by Transmission providing the NewCo Shares to which the Ineligible Foreign Securityholder would have been entitled (had they been determined to be eligible) to the Sale Nominee, and the Sale Nominee and Transmission complying with the sale facility provisions under clause 7.

6.3 Status of NewCo Shares

- a) NewCo Shares issued to Eligible Securityholders under this Scheme will rank equally in all respects with all existing NewCo Shares.
- b) On issue, each NewCo Share issued to Eligible Securityholders will be fully paid and free from any Encumbrance.
- c) NewCo must use all reasonable endeavours to ensure that NewCo Shares issued for the Schemes are, by no later than the date after the Effective Date, quoted for trading on ASX on a deferred settlement basis.

6.4 Consolidated NewCo Shares

Each Eligible Securityholder agrees and acknowledges that, after the issue of NewCo Shares under the Schemes, the NewCo Shares they hold will be converted into that number of NewCo Shares equal to:

- a) for a Scheme Participant (other than an Ineligible Foreign Securityholder), the number of Stapled Securities they held on the Record Date; and
- b) for the Sale Nominee, the number of Ineligible Securities held by Ineligible Foreign Securityholders (calculated as a Stapled Security) on the Record Date.

6.5 Despatch of holding statements

As soon as practicable after the Implementation Date, NewCo must send a certificate or holding statement (or equivalent document) to the registered address of each Scheme Participant representing the number of Consolidated NewCo Shares each Scheme Participant holds pursuant to the Schemes.

7 Sale Facility

7.1 Appointment

Transmission, together with Distribution and the Trustee, must, prior to the Implementation Date, appoint the Sale Nominee and must procure that the Sale Nominee perform all acts attributed to it under the Schemes and any other things necessary to give effect to the sale facility under this clause 7.

7.2 Disposal of Consolidated NewCo Shares

Transmission will enforce its contractual rights against the Sale Nominee to require that:

- a) as soon as is reasonably practicable after the Implementation Date following the conversion pursuant to clause 6.4, the Sale Nominee sells the Sale Securities in such manner, at such prices and at such times as the Sale Nominee sees fit and determines in good faith, with the objectives of:
 - i) achieving the best price for the Sale Securities that is reasonably obtainable at the time of the relevant sale; and
 - ii) ensuring all sales of the Sale Securities are effected in the ordinary course of trading on ASX during the Sale Period;
- b) the Sale Nominee promptly deposits (or procures the deposit of) the gross sale proceeds and any dividends received in respect of the Sale Securities into the Sale Facility Account;

- c) once all the Sale Securities are sold, the Sale Nominee advises the Registry of the completion of the sale of the Sale Securities, the total gross sale proceeds and the total dividends received in respect of Sale Securities, the average price and dividend received for each Sale Security, and the amount of any reasonable applicable brokerage, stamp duty and other selling costs, taxes and charges (to the extent not met by Transmission, Distribution and the Trustee) deducted; and
- d) once settlement of the sale of all the Sale Securities has occurred, and in no case later than 2 Business Days thereafter, the Sale Nominee transfers the total gross sale proceeds and the total dividends received in the Sale Facility Account less any reasonable applicable brokerage, stamp duty and other selling costs, taxes and charges (to the extent not met by Transmission, Distribution and the Trustee) to the Registry.

7.3 Update by the Registry

Transmission must procure that the Registry:

- a) following receipt of information from the Sale Nominee in accordance with paragraph 7.2(c), calculates the Relevant Sale Facility Consideration for each Ineligible Foreign Securityholder; and
- b) no later than 5 Business Days after the Sale Nominee has transferred the total gross sale proceeds and the total dividends received in the Sale Facility Account less any reasonable applicable brokerage, stamp duty and other selling costs, taxes and charges (to the extent not met by Transmission, Distribution and the Trustee) in accordance with paragraph 7.2(d), arranges in respect of each Ineligible Foreign Securityholder for payment of the Relevant Sale Facility Consideration by either:
 - i) dispatching by mail to the registered address of that Ineligible Foreign Securityholder a cheque or bank draft of the Relevant Sale Facility Consideration for that Ineligible Foreign Securityholder payable in Australian dollars (provided that, in the case of Ineligible Foreign Securityholders who are joint holders of Transmission Shares, the cheque will be made payable to the joint holders and sent to the holder whose name appears first in the Stapled Security Register as at 7.00pm on the Record Date); or
 - ii) making an electronic funds transfer in Australian dollars to an account nominated by that Ineligible Foreign Securityholder for the purposes of the Sale Facility or the payment of distributions by the Stapled Entities.

7.4 Relevant Sale Facility Consideration

- a) Each Ineligible Foreign Securityholder agrees that the payment of the Relevant Sale Facility Consideration is a full discharge of the obligations of Transmission under this clause 7.
- b) The total consideration received by an Ineligible Foreign Securityholder for their Ineligible Securities (calculated as a Stapled Security) held at 7.00pm on the Record Date must not exceed the Relevant Sale Facility Consideration, whether received under any or all of the Schemes or otherwise.
- c) Each Ineligible Foreign Securityholder agrees that their entitlement to the Relevant Sale Facility Consideration is subject to compliance with applicable law (including on conduct of the sale facility and remittance of funds).

8 Dealings in Transmission Shares

8.1 Determination of identity

To establish the identity and addresses of the Scheme Participants, dealings in Stapled Securities and other alterations to the Stapled Security Register will only be recognised if:

- a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Stapled Security Register as the holder of the relevant Stapled Securities on or before 7.00pm on the Record Date; and
- b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 5.00pm on the Record Date at the place where the Stapled Security Register is kept.

8.2 Stapled Security Register

- a) Transmission must register any registrable transmission applications or transfers of the Stapled Securities received in accordance with clause 8.1(b) on or before 5.00pm on the Record Date.
- b) If the Schemes become Effective, a Securityholder (and any person claiming through that holder) must not dispose of or purport or agree to dispose of any Stapled Securities or any interest in them after the Effective Date.
- c) Transmission will not accept for registration or recognise for any purpose any transmission, application or transfer in registrable form or other request in respect of Stapled Securities received after 5.00pm on the Record Date, or received prior to such time but not in registrable or actionable form (except a transfer to the Sale Nominee or NewCo pursuant to clause 5 and any subsequent transfer by NewCo or its successors in title).
- d) For the purpose of determining entitlements to the NewCo Shares, Transmission will maintain the Stapled Security Register and the Register in accordance with the provisions of this clause 8.2 and, following the registration of the transfer of the Ineligible Transmission Shares from Ineligible Foreign Securityholders to the Sale Nominee and the entry of the name of the Sale Nominee in the Register referred to in clause 5.3(c), the Register in this form will solely determine entitlements to the NewCo Shares.
- e) Any statements of holding in respect of Stapled Securities will cease to have effect after 7.00pm on the Record Date as documents of title in respect of those Stapled Securities (other than statements of holding in favour of NewCo and its successors in title). After 7.00pm on the Record Date, each entry current on the Stapled Security Register as at 7.00pm on the Record Date (other than entries in respect of NewCo or its successors in title) will cease to have effect except as evidence of entitlement to the NewCo Shares.
- f) As soon as possible on or after the Record Date, and in any event within one Business Day after the Record Date, Transmission will ensure that details of the names, registered addresses and Stapled Securities holdings for each Securityholder as shown in the Stapled Security Register as at the Record Date are available to NewCo in the form NewCo reasonably requires.

8.3 Quotation of Transmission Shares

- a) The Transmission Shares will only trade on the ASX as part of the Stapled Securities until the close of trading on the ASX on the Effective Date.
- b) As soon as practical after the Implementation Date, Transmission will apply:
 - i) for termination of the official quotation of the Transmission Shares on ASX; and
 - ii) to have Transmission removed from the official list of ASX.

9 General Scheme provisions

9.1 Power of attorney

From the Effective Time, each Eligible Securityholder and each Ineligible Foreign Securityholder, without the need for any further act, irrevocably appoints Transmission and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of:

- a) enforcing the NewCo Deed Poll against NewCo; and
- b) executing any document or doing or taking any other act, necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by them, including (without limitation) executing the transfer of Transmission Shares.

Transmission as attorney and agent of each Eligible Securityholder and each Ineligible Foreign Securityholder, may sub-delegate its functions, authorities or powers under this clause 9.1 to all or any of its directors, officers or employees (jointly, severally or jointly and severally).

9.2 Instructions

Binding instructions or notifications between an Eligible Securityholder and Transmission relating to Stapled Securities or an Eligible Securityholder's status as a Securityholder (including, without limitation, any instructions relating to payment of dividends or communications from Transmission) will (to the extent permitted by law), from the Record Date, be deemed by reason of this Scheme to be similarly binding instructions or notifications to, and accepted by, NewCo in respect of the NewCo Shares issued to the Eligible Securityholder until those instructions or notifications are, in each case, revoked or amended in writing addressed to NewCo or its share registry. Each Eligible Securityholder agrees that Transmission holds the benefit of this clause 9.2 for NewCo.

9.3 Variations, alterations and conditions

If the Court proposes to approve this Scheme subject to any alterations or conditions, Transmission may, by its counsel or solicitor, consent on behalf of all persons concerned to those alterations or conditions provided that in no circumstances will Transmission be obliged to do so.

9.4 Further action by Transmission

Transmission must do all things and execute all documents (on its own behalf and on behalf of each Eligible Securityholder and each Ineligible Foreign Securityholder) necessary or expedient to give full effect to this Scheme and the transactions contemplated by them.

9.5 Authority and acknowledgement

Each of the Eligible Securityholders and each of the Ineligible Foreign Securityholders:

- a) irrevocably consents to Transmission doing all things necessary or expedient for or incidental to the implementation of this Scheme; and
- b) acknowledges that this Scheme binds Transmission and each Eligible Securityholder and each Ineligible Foreign Securityholder (including those who did not attend the Scheme Meeting, did not vote at that meeting or voted against this Scheme at that meeting).

9.6 No liability when acting in good faith

Neither Transmission nor any of its officers will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

9.7 Enforcement of NewCo Deed Poll

Transmission undertakes in favour of each Eligible Securityholder and each Ineligible Foreign Securityholder to enforce the NewCo Deed Poll on behalf of and as agent and attorney for each Eligible Securityholder and each Ineligible Foreign Securityholder.

9.8 Stamp duty

Transmission must pay all stamp duty (including any fines, penalties and interest) payable in connection with this Scheme.

9.9 Scheme overrides Transmission Constitution

To the extent of any inconsistency and to the extent permitted by law, this Scheme overrides the Transmission Constitution and binds Transmission and Transmission Shareholders.

9.10 Notices

- a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Transmission, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Transmission's registered office or at the office of the Registry.
- b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Transmission Shareholder shall not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

10 Governing law

10.1 Governing law

This Scheme is governed by the law in force in Victoria.

10.2 Jurisdiction

Each party irrevocably and unconditionally:

- a) submits to the non-exclusive jurisdiction of the courts of that place; and
- b) waives, without limitation, any claim or objection based on absence of jurisdiction or inconvenient forum.

Annexure D – Terms of the AusNet Services Distribution Scheme

This Annexure D sets out the terms of the AusNet Services Distribution Scheme.

Scheme of Arrangement

Scheme made under section 411 of the Corporations Act 2001.

Between		
Distribution	Name	AusNet Services (Distribution) Ltd
	ACN	108 788 245
	Address	Level 31, 2 Southbank Boulevard, Southbank, Victoria, 3006
	Fax	+61 3 9695 6307
	Attention	General Counsel and Company Secretary
Distribution Shareholder	Name	Each person registered as a holder of fully paid ordinary shares in AusNet Services (Distribution) Ltd on the Record Date and the Implementation Date

1 Definitions and interpretation

1.1 Definitions

In this Scheme:

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or Australian Securities Exchange, as appropriate.

ATO means the Australian Taxation Office.

Attached Security means a Security which is from time to time Stapled or to be Stapled to a Transmission Share, a Distribution Share or a Unit.

AusNet Services means the triple-Stapled entity consisting of Transmission, Distribution and Finance.

Business Day means a business day within the meaning given to that term in the Listing Rules.

CHESS means the Clearing House Electronic Subregister System for the electronic transfer of securities, operated by ASX Settlement Pty Ltd ABN 49 008 504 532.

Company Scheme means either of the Transmission Scheme or Distribution Scheme, and **Company Schemes** means both of them.

Consolidated NewCo Share means a share in NewCo on issue immediately subsequent to the conversion of NewCo Shares into that number of NewCo Shares equal to the number of Stapled Securities that had been on issue at the Record Date.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Supreme Court of Victoria.

Distribution means AusNet Services (Distribution) Ltd (ACN 108 788 245).

Distribution Constitution means the constitution of Distribution.

Distribution Scheme or **Scheme** means this scheme of arrangement.

Distribution Share means one fully paid ordinary share issued in the capital of Distribution.

Distribution Shareholder means a person registered as the holder of a Distribution Share, including any person jointly registered and **Distribution Shareholders** means all of them.

Effective means all of the following events taking place:

- in relation to each of the Company Schemes, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) but in any event at no time before an office copy of the orders of the Court is lodged with ASIC; and
- in relation to the Trust Scheme, the Trust Constitution Amendments coming into effect pursuant to section 601GC(2) of the Corporations Act.

Effective Date means the earliest date on which all of the Schemes become Effective.

Effective Time means the earliest time and date on which all of the Schemes become Effective.

Eligible Securityholder means the Scheme Participants (other than Ineligible Foreign Securityholders) and the Sale Nominee in respect of the Ineligible Securities.

Encumbrance means any security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement and any "security interest" as defined in sections 12(1) or (2) of the PPSA, or any agreement to create any of them or allow them to exist.

End Date means 30 September 2015 or such other date as agreed by the parties to the Implementation Deed.

Foreign Securityholder means a Securityholder at 7.00pm on the Record Date:

- who is (or who is acting on behalf of) a citizen or resident of a place outside Australia and its external territories; or
- whose address shown in the Stapled Security Register is a place outside Australia and its external territories (or who is acting on behalf of such a person).

Government Agency means any government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, bureau, tribunal, agency or entity in any part of the world and includes ASX, ASIC and ATO.

Implementation means the completion of all the Implementation Steps in accordance with clause 5.1 of the Implementation Deed.

Implementation Date means the date on which Implementation occurs, being a date no later than the eighth Business Day after the Effective Date (or such other date as the parties to the Implementation Deed may agree).

Implementation Deed means the Implementation Deed dated 14 April 2015 between Transmission, Distribution, the Trustee as responsible entity of the Trust and NewCo.

Implementation Step means each of the steps set out in Schedule 1 of the Implementation Deed.

Ineligible Distribution Share has the meaning given in clause 5.2.

Ineligible Foreign Securityholder has the meaning given in clause 5.2.

Ineligible Securities means Ineligible Transmission Shares, Ineligible Distribution Shares and Ineligible Units.

Ineligible Transmission Share has the meaning given in clause 5.2.

Ineligible Unit has the meaning given in clause 5.2.

Listing Rules means the Listing Rules of ASX and any other rules of ASX which are applicable to any of Distribution, the Trust or Transmission, subject to any waiver or exemption granted to Distribution, the Trust or Transmission from compliance with those rules.

NewCo means AusNet Services Ltd (ACN 603 317 559).

NewCo Constitution means the constitution of NewCo.

NewCo Deed Poll means the deed poll under which NewCo covenants in favour of each Eligible Securityholder and each Ineligible Foreign Securityholder to perform acts attributed to it under the Schemes, signed on or about the date of the Implementation Deed.

NewCo Shares means fully paid ordinary shares in NewCo.

Proposal means the proposed restructure of AusNet Services, pursuant to which NewCo would be established as the ultimate parent with the Stapled Entities becoming wholly owned entities of NewCo, as described in the Securityholder Booklet (including the Schemes).

Record Date means the third Business Day following the Effective Date, or such other date as agreed by the parties to the Implementation Deed.

Register means the Distribution member register established and maintained by or on behalf of Distribution in accordance with the Distribution Constitution.

Registry means Computershare Investor Services Pty Limited (ABN 48 078 279 277).

Relevant Sale Facility Consideration means, in relation to each Ineligible Foreign Securityholder, an amount equal to the average price at which Sale Securities are sold by the Sale Nominee under the Sale Facility plus any dividend received per Sale Security, multiplied by the corresponding number of Ineligible Securities (calculated as a Stapled Security) of that Ineligible Foreign Securityholder, less any reasonable applicable brokerage, stamp duty and other selling costs, taxes and charges (to the extent not met by Transmission, Distribution and the Trustee) (subject to rounding to the nearest whole cent or, if the amount calculated is exactly half a cent, subject to rounding down to the nearest whole cent).

Sale Facility means the facility to be established and implemented by Distribution, in agreement with Transmission and the Trustee, under which Ineligible Distribution Shares (along with Ineligible Transmission Shares and Ineligible Units) are transferred to the Sale Nominee and Sale Securities are sold on ASX in accordance with clause 7 of this Scheme.

Sale Facility Account means the account established by the Sale Nominee in its own name, into which the Sale Nominee must deposit the gross sale proceeds received in respect of the Sale Securities.

Sale Nominee means the entity appointed by Transmission, Distribution and the Trustee to act as the sale facility nominee under the Schemes.

Sale Period means the 29 day period commencing on the date on which Consolidated NewCo Shares commence trading on a normal (T+3) settlement basis.

Sale Security means a Consolidated NewCo Share held by the Sale Nominee following participation by the Sale Nominee in the implementation of the Proposal in respect of the Ineligible Securities that is, or is to be, sold under the Sale Facility.

Scheme or Distribution Scheme means this scheme of arrangement.

Scheme Meeting means the meeting of shareholders convened by order of the Court in relation to this Scheme pursuant to section 411(1) of the Corporations Act, and includes any adjournment of such meeting.

Scheme Participant means a Securityholder at 7.00pm on the Record Date, and **Scheme Participants** means all of them.

Schemes means all of the Transmission Scheme, Distribution Scheme and the Trust Scheme.

Second Court Date means the date on which the Court makes orders pursuant to section 411(4)(b) of the Corporations Act approving the Company Schemes.

Security has the meaning given to that term in section 92(1) of the Corporations Act.

Securityholder means a person who is registered in the Stapled Security Register as the holder of Stapled Securities who is also relevantly a Transmission Shareholder, Distribution Shareholder or Unit Holder, whether together as the holder of Stapled Securities or separately as the context may require, and **Securityholders** means all of them.

Securityholder Booklet means the notices of meeting, explanatory statement and accompanying materials in connection with the Proposal dated 22 April 2015 despatched to the Securityholders.

Staple, Stapled or Stapling means, in relation to one or more Attached Securities, being linked together so that one may not be dealt with without the other or others.

Stapled Entity means any trust, corporation, managed investment scheme or other entity the Securities in which are Stapled, being Transmission, Distribution and the Trust.

Stapled Entity's Constitution means the constitution of a Stapled Entity, being the Transmission Constitution, the Distribution Constitution and the Trust Constitution.

Stapled Security means a Transmission Share, a Distribution Share and a Unit which are Stapled together.

Stapled Security Register means the register of Stapled Securities established and maintained by or on behalf of Transmission, Distribution and the Trustee in accordance with the Stapled Entity's Constitutions.

Subscription Form means a duly completed and executed proper instrument of subscription for the NewCo Shares, which may be a master subscription form.

Transfer Form means a duly completed and executed proper instrument of transfer for the Distribution Shares for the purposes of section 1071B of the Corporations Act, which may be a master transfer form.

Transmission means AusNet Services (Transmission) Ltd (ACN 116 124 362).

Transmission Constitution means the constitution of Transmission.

Transmission Scheme means the scheme of arrangement pursuant to Part 5.1 of the Corporations Act between Transmission and the Transmission Shareholders, substantially in the form annexed to the Securityholder Booklet, together with any alterations or conditions made by Transmission to which NewCo agrees or made or required by the Court under section 411(6) of the Corporations Act, or otherwise desirable or necessary to comply with applicable law.

Transmission Share means one fully paid ordinary share issued in the capital of Transmission.

Transmission Shareholder means a person registered as the holder of a Transmission Share, including any person jointly registered and **Transmission Shareholders** means all of them.

Trust means AusNet Services Finance Trust (ARSN 116 783 914) constituted under the Trust Constitution.

Trust Constitution means trust deed entitled Constitution – AusNet Services Finance Trust dated 19 July 2004 (as amended).

Trust Constitution Amendments means the amendments to the Trust Constitution to enable the Trust Scheme.

Trust Scheme means the arrangement, in accordance with *Guidance Note 15: Listed Trusts and Managed Investment Scheme Mergers* issued by the Takeovers Panel, under which NewCo acquires all of the Units facilitated by amendments to the Trust Constitution as set out in clauses 24 to 29 of the Trust Constitution.

Trustee means AusNet Services (RE) Ltd (ACN 109 977 371), acting as trustee and responsible entity of the Trust.

Unit means an undivided interest in the Trust as provided for in the Trust Constitution, being one fully paid ordinary unit in the Trust.

Unit Holder means a person registered as the holder of a Unit, including any person jointly registered and **Unit Holders** means all of them.

Unstaple, Unstapled and Unstapling means, in relation to one or more Attached Securities, not being Stapled to another Attached Security.

1.2 Reference to certain general terms

Unless the contrary intention appears, a reference in this Scheme to:

- a) **(variations or replacements)** a document, agreement (including this agreement) or instrument is a reference to that document, agreement or instrument as amended, consolidated, supplemented, novated or replaced;
- b) **(clauses, annexures and schedules)** a clause, annexure or schedule is a reference to a clause in or annexure or schedule to this Scheme;
- c) **(reference to statutes)** a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

- d) **(law)** law means common law, principles of equity, and laws made by parliament (and laws made by parliament include State, Territory and Commonwealth laws and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);
- e) **(singular includes plural)** the singular includes the plural and vice versa;
- f) **(party)** a party means a party to this Scheme;
- g) **(person)** the word “person” includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any Government Agency;
- h) **(executors, administrators, successors)** a particular person includes a reference to the person’s executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- i) **(dollars)** Australian dollars, dollars, A\$ or \$ is a reference to the lawful currency of Australia;
- j) **(calculation of time)** a period of time dating from a given day or the day of an act or event, is to be calculated exclusive of that day;
- k) **(reference to a day)** a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- l) **(meaning not limited)** the words “include”, “including”, “for example” or “such as” when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind;
- m) **(holders)** a reference to a holder includes a joint holder; and
- n) **(time of day)** time is a reference to Melbourne time.

1.3 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this Scheme.

2 Preliminary

2.1 Distribution

Distribution is:

- a) a public company limited by shares;
- b) incorporated in Australia and has its registered office at Level 31, 2 Southbank Boulevard, Southbank, Victoria, 3006; and
- c) admitted to the official list of the ASX and Distribution Shares are officially quoted on the stock market conducted by ASX (as one of the securities comprising the Stapled Securities).

2.2 NewCo

NewCo is:

- a) a public company limited by shares; and
- b) incorporated in Australia and has its registered office at Level 31, 2 Southbank Boulevard, Southbank, Victoria, 3006.

2.3 Share capital

- a) As at 22 April 2015, there are 3,466,913,009 Distribution Shares on issue.
- b) As at 22 April 2015, there are 2 NewCo Shares on issue.

2.4 Implementation steps

Distribution acknowledges that under the Implementation Deed, the implementation steps for the Proposal will take place at the times and in the order described in the Implementation Deed, including the Unstapling of the Stapled Securities which will occur immediately before the first of the transfers under clause 5, and on the condition that Distribution must not affect the transfer at clause 5.4 unless and until after the transfer at clause 5.4 of the Transmission Scheme, an election to continue the Transmission tax consolidated group and the transfer at clause 25.3 of the Trust Scheme have been completed in that order.

3 Conditions precedent

3.1 Conditions precedent

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- a) as at 8.00am on the Second Court Date, the Implementation Deed and NewCo Deed Poll not having been terminated in accordance with their respective terms; and
- b) all of the conditions precedent set out in clause 3.1 of the Implementation Deed (other than any condition precedent that cannot be waived) having been satisfied or waived in accordance with the terms of the Implementation Deed.

3.2 Certificate in relation to conditions precedent

- a) Distribution will provide to the Court at the Court hearing on the Second Court Date a certificate confirming (in respect of matters within its knowledge) whether or not all of the conditions precedent set out in clause 3.1 of this Scheme (other than the condition precedent in clause 3.1(c) of the Implementation Deed) have been satisfied or waived as at 8.00am on the Second Court Date.
- b) The certificate referred to in this clause 3.2 will constitute conclusive evidence of whether the conditions precedent referred to in clause 3.1 of this Scheme (other than the condition precedent in clause 3.1(c) of the Implementation Deed) have been satisfied or waived.

4 Scheme

4.1 Effective Date

Subject to clause 4.2, this Scheme will come into effect pursuant to section 411(10) of the Corporations Act on and from the Effective Date.

4.2 End Date

This Scheme will lapse and be of no further force or effect if the Effective Date does not occur on or before the End Date.

5 Implementation of Scheme

5.1 Lodgement of Court orders with ASIC

If the conditions precedent set out in clause 3.1 of this Scheme are satisfied, Distribution must lodge with ASIC in accordance with section 411(10) of the Corporations Act an office copy of the Court order approving this Scheme as soon as practical after the making of the Court order.

5.2 Determination of Ineligible Foreign Securityholders

- a) After the Record Date and prior to the Implementation Date, Distribution must in agreement with Transmission and the Trustee determine whether a Foreign Securityholder, or a class of Foreign Securityholders, is eligible to have issued to it NewCo Shares.
- b) The determination under clause 5.2(a) is to be made having regard to whether the participation of the Foreign Securityholder in the Proposal would be lawful and not unduly onerous for NewCo or the Stapled Entities under the laws of a place outside Australia and its external territories.
- c) A determination under clause 5.2(a) may specify that a Foreign Securityholder is eligible to participate in respect of some or all of its Stapled Securities (comprising Transmission Shares, Distribution Shares and Units) held at 7.00pm on the Record Date, with or without conditions.
- d) A Foreign Securityholder may only receive NewCo Shares in accordance with the determination under clause 5.2(a) and is not otherwise eligible to receive NewCo Shares in respect of any of its Stapled Securities (comprising Transmission Shares, Distribution Shares and Units). For the purposes of this Scheme:
 - i) each such Foreign Securityholder which is ineligible to receive NewCo Shares in respect of all or some of its Stapled Securities is referred to as an Ineligible Foreign Securityholder;
 - ii) each Transmission Share, Distribution Share and Unit comprising a Stapled Security in respect of which the Ineligible Foreign Securityholder is ineligible to receive NewCo Shares is referred to as an Ineligible Transmission Share, Ineligible Distribution Share or Ineligible Unit; and
 - iii) a reference to an Ineligible Foreign Securityholder only applies in relation to its Ineligible Transmission Shares, Ineligible Distribution Shares or Ineligible Units.
- e) The determination under clause 5.2(a) is final and conclusive of a Foreign Securityholder's eligibility to receive NewCo Shares.

5.3 Transfer to Sale Nominee

- a) After the Record Date and on or prior to the Implementation Date, all of the Ineligible Distribution Shares together with all rights and entitlements attaching to those Ineligible Distribution Shares will be transferred to the Sale Nominee without the need for any further act by any Ineligible Foreign Securityholders (other than acts performed by Distribution (or its directors or officers) as attorney and agent for the Ineligible Foreign Securityholders).
- b) Distribution must procure that the Sale Nominee accepts, the transfer of Ineligible Distribution Shares under clause 5.3(a) by immediately executing the Transfer Form as transferee and delivering it to Distribution for registration.

- c) In order to give effect to the transfer of Ineligible Distribution Shares under clause 5.3(a), Distribution will:
 - i) as attorney and agent for each Ineligible Foreign Securityholder, execute the Transfer Form, which was previously duly completed and executed by the Sale Nominee, to transfer all Ineligible Distribution Shares to the Sale Nominee; and
 - ii) register the transfer of Ineligible Distribution Shares and enter the name of the Sale Nominee in the Register in respect of all Ineligible Distribution Shares transferred under clause 5.3(a).

5.4 Transfer to NewCo

Following the transfers set out in clause 5.3 and subject to the provision of the NewCo Shares in the manner contemplated by clause 6:

- a) on the Implementation Date, all of the Distribution Shares held by Eligible Securityholders together with all rights and entitlements attaching to those Distribution Shares will be transferred to NewCo without the need for any further acts by any Eligible Securityholders (other than acts performed by Distribution (or its directors or officers) as attorney and agent for the Eligible Securityholders);
- b) Distribution must procure that NewCo accepts the transfer of Distribution Shares under clause 5.4(a) by immediately executing the Transfer Form as transferee and delivering it to Distribution for registration;
- c) in order to give effect to the transfer of Distribution Shares under clause 5.4(a), Distribution will:
 - i) as attorney and agent for each Eligible Securityholder, execute the Transfer Form, which was previously duly completed and executed by NewCo, to transfer all Distribution Shares held by the Eligible Securityholders to NewCo; and
 - ii) as soon as possible following receipt of the Transfer Form, register the transfer of Distribution Shares and enter the name of NewCo in the Register in respect of all Distribution Shares transferred under clause 5.4(a).

5.5 Scheme Participants' agreements

Each Scheme Participant agrees to the transfer of all of their Distribution Shares together with all rights and entitlements attaching to those Distribution Shares in accordance with this clause 5 and agrees to any variation, cancellation or modification of their rights constituted by or resulting from this clause 5.

5.6 Scheme Participants' warranties

Each Scheme Participant is taken to have warranted to Distribution and NewCo (and in the case of an Ineligible Foreign Securityholder, to the Sale Nominee), and appointed and authorised Distribution as its attorney and agent to warrant to NewCo (and in the case of an Ineligible Foreign Securityholder, to the Sale Nominee), that:

- a) to the extent permitted by law, the Distribution Shares transferred under this clause 5 will be transferred free from all Encumbrances; and
- b) they have full power and capacity to sell and to transfer their Distribution Shares (including any rights and entitlements attaching to those Distribution Shares) under this Scheme.

Distribution will hold as attorney and agent of each Scheme Participant the benefit of such warranties for NewCo (and in the case of an Ineligible Foreign Securityholder, for the Sale Nominee).

5.7 Title and rights in Distribution Shares

- a) To the extent permitted by law, the Distribution Shares transferred under this clause 5 will be transferred free from all Encumbrances.
- b) NewCo will be beneficially entitled to the Distribution Shares transferred to it under this clause 5 pending registration by Distribution of NewCo in the Register as a Distribution Shareholder.

6 NewCo Shares

6.1 Subscribing for NewCo Shares

- a) In consideration for the transfer of Distribution Shares under clause 5.4(a), each Eligible Securityholder will be entitled to receive 1 NewCo Share for every 1 Distribution Share transferred under this Scheme.
- b) Distribution, as attorney and agent for each Eligible Securityholder, will apply for the number of NewCo Shares to be issued to that Eligible Securityholder under this Scheme.
- c) On the Implementation Date and following the transfers set out in clause 5.3, in order to apply for the issue of NewCo Shares under clause 6.1(b), Distribution will as attorney and agent for each Eligible Securityholder duly complete and execute the Subscription Form in respect of all the NewCo Shares to be issued under this Scheme for the Eligible Securityholders.
- d) Each Eligible Securityholder:
 - i) accepts the NewCo Shares under this Scheme; and
 - ii) agrees to become a member of NewCo and be bound by the NewCo Constitution.

6.2 Issue of NewCo Shares

- a) On the Implementation Date, in consideration for the transfer of Distribution Shares to NewCo, Distribution must procure that NewCo:
 - i) issues the NewCo Shares to each Eligible Securityholder as it is entitled under this Scheme;
 - ii) enters the name and address of each Eligible Securityholder in the NewCo members register in respect of the NewCo Shares to which it is entitled under this Scheme; and
 - iii) ensures that each such NewCo Share is duly and validly issued in accordance with all applicable laws and the NewCo Constitution.
- b) In the case of Distribution Shares held in joint names, the NewCo Shares to be issued under this Scheme must be issued to and registered in the names of the joint holders.
- c) The entitlement of the Ineligible Foreign Securityholders under this Scheme is satisfied by Distribution providing the NewCo Shares to which the Ineligible Foreign Securityholder would have been entitled (had they been determined to be eligible) to the Sale Nominee, and the Sale Nominee and Distribution complying with the sale facility provisions under clause 7.

6.3 Status of NewCo Shares

- a) NewCo Shares issued to Eligible Securityholders under this Scheme will rank equally in all respects with all existing NewCo Shares.
- b) On issue, each NewCo Share issued to Eligible Securityholders will be fully paid and free from any Encumbrance.
- c) NewCo must use all reasonable endeavours to ensure that NewCo Shares issued for the Schemes are, by no later than the date after the Effective Date, quoted for trading on ASX on a deferred settlement basis.

6.4 Consolidated NewCo Shares

Each Eligible Securityholder agrees and acknowledges that, after the issue of NewCo Shares under the Schemes, the NewCo Shares they hold will be converted into that number of NewCo Shares equal to:

- a) for a Scheme Participant (other than an Ineligible Foreign Securityholder), the number of Stapled Securities they held on the Record Date; and
- b) for the Sale Nominee, the number of Ineligible Securities held by Ineligible Foreign Securityholders (calculated as a Stapled Security) on the Record Date.

6.5 Despatch of holding statements

As soon as practicable after the Implementation Date, NewCo must send a certificate or holding statement (or equivalent document) to the registered address of each Scheme Participant representing the number of Consolidated NewCo Shares each Scheme Participant holds pursuant to the Schemes.

7 Sale Facility

7.1 Appointment

Distribution, together with Transmission and the Trustee, must, prior to the Implementation Date, appoint the Sale Nominee and must procure that the Sale Nominee perform all acts attributed to it under the Schemes and any other things necessary to give effect to the sale facility under this clause 7.

7.2 Disposal of Consolidated NewCo Shares

Distribution will enforce its contractual rights against the Sale Nominee to require that:

- a) as soon as is reasonably practicable after the Implementation Date following the conversion pursuant to clause 6.4, the Sale Nominee sells the Sale Securities in such manner, at such prices and at such times as the Sale Nominee sees fit and determines in good faith, with the objectives of:
 - i) achieving the best price for the Sale Securities that is reasonably obtainable at the time of the relevant sale; and
 - ii) ensuring all sales of the Sale Securities are effected in the ordinary course of trading on ASX during the Sale Period;
- b) the Sale Nominee promptly deposits (or procures the deposit of) the gross sale proceeds and any dividends received in respect of the Sale Securities into the Sale Facility Account;

- c) once all the Sale Securities are sold, the Sale Nominee advises the Registry of the completion of the sale of the Sale Securities, the total gross sale proceeds and the total dividends received in respect of Sale Securities, the average price and dividend received for each Sale Security, and the amount of any reasonable applicable brokerage, stamp duty and other selling costs, taxes and charges (to the extent not met by Transmission, Distribution and the Trustee) deducted; and
- d) once settlement of the sale of all the Sale Securities has occurred, and in no case later than 2 Business Days thereafter, the Sale Nominee transfers the total gross sale proceeds and the total dividends received in the Sale Facility Account less any reasonable applicable brokerage, stamp duty and other selling costs, taxes and charges (to the extent not met by Transmission, Distribution and the Trustee) to the Registry.

7.3 Update by the Registry

Distribution must procure that the Registry:

- a) following receipt of information from the Sale Nominee in accordance with paragraph 7.2(c), calculates the Relevant Sale Facility Consideration for each Ineligible Foreign Securityholder; and
- b) no later than 5 Business Days after the Sale Nominee has transferred the total gross sale proceeds and the total dividends received in the Sale Facility Account less any reasonable applicable brokerage, stamp duty and other selling costs, taxes and charges (to the extent not met by Transmission, Distribution and the Trustee) in accordance with paragraph 7.2(d), arranges in respect of each Ineligible Foreign Securityholder for payment of the Relevant Sale Facility Consideration by either:
 - i) dispatching by mail to the registered address of that Ineligible Foreign Securityholder a cheque or bank draft of the Relevant Sale Facility Consideration for that Ineligible Foreign Securityholder payable in Australian dollars (provided that, in the case of Ineligible Foreign Securityholders who are joint holders of Distribution Shares, the cheque will be made payable to the joint holders and sent to the holder whose name appears first in the Stapled Security Register as at 7.00pm on the Record Date); or
 - ii) making an electronic funds transfer in Australian dollars to an account nominated by that Ineligible Foreign Securityholder for the purposes of the Sale Facility or the payment of distributions by the Stapled Entities.

7.4 Relevant Sale Facility Consideration

- a) Each Ineligible Foreign Securityholder agrees that the payment of the Relevant Sale Facility Consideration is a full discharge of the obligations of Distribution under this clause 7.
- b) The total consideration received by an Ineligible Foreign Securityholder for their Ineligible Securities (calculated as a Stapled Security) held at 7.00pm on the Record Date must not exceed the Relevant Sale Facility Consideration, whether received under any or all of the Schemes or otherwise.
- c) Each Ineligible Foreign Securityholder agrees that their entitlement to the Relevant Sale Facility Consideration is subject to compliance with applicable law (including on conduct of the sale facility and remittance of funds).

8 Dealings in Distribution Shares

8.1 Determination of identity

To establish the identity and addresses of the Scheme Participants, dealings in Stapled Securities and other alterations to the Stapled Security Register will only be recognised if:

- a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Stapled Security Register as the holder of the relevant Stapled Securities on or before 7.00pm on the Record Date; and
- b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 5.00pm on the Record Date at the place where the Stapled Security Register is kept.

8.2 Stapled Security Register

- a) Distribution must register any registrable transmission applications or transfers of the Stapled Securities received in accordance with clause 8.1(b) on or before 5.00pm on the Record Date.
- b) If the Schemes become Effective, a Securityholder (and any person claiming through that holder) must not dispose of or purport or agree to dispose of any Stapled Securities or any interest in them after the Effective Date.
- c) Distribution will not accept for registration or recognise for any purpose any transmission, application or transfer in registrable form or other request in respect of Stapled Securities received after 5.00pm on the Record Date, or received prior to such time but not in registrable or actionable form (except a transfer to the Sale Nominee or NewCo pursuant to clause 5 and any subsequent transfer by NewCo or its successors in title).
- d) For the purpose of determining entitlements to the NewCo Shares, Distribution will maintain the Stapled Security Register and the Register in accordance with the provisions of this clause 8.2 and, following the registration of the transfer of the Ineligible Distribution Shares from Ineligible Foreign Securityholders to the Sale Nominee and the entry of the name of the Sale Nominee in the Register referred to in clause 5.3(c), the Register in this form will solely determine entitlements to the NewCo Shares.
- e) Any statements of holding in respect of Stapled Securities will cease to have effect after 7.00pm on the Record Date as documents of title in respect of those Stapled Securities (other than statements of holding in favour of NewCo and its successors in title). After 7.00pm on the Record Date, each entry current on the Stapled Security Register as at 7.00pm on the Record Date (other than entries in respect of NewCo or its successors in title) will cease to have effect except as evidence of entitlement to the NewCo Shares.
- f) As soon as possible on or after the Record Date, and in any event within one Business Day after the Record Date, Distribution will ensure that details of the names, registered addresses and Stapled Securities holdings for each Securityholder as shown in the Stapled Security Register as at the Record Date are available to NewCo in the form NewCo reasonably requires.

8.3 Quotation of Distribution Shares

- a) The Distribution Shares will only trade on the ASX as part of the Stapled Securities until the close of trading on the ASX on the Effective Date.
- b) As soon as practical after the Implementation Date, Distribution will apply:
 - i) for termination of the official quotation of the Distribution Shares on ASX; and
 - ii) to have Distribution removed from the official list of ASX.

9 General Scheme provisions

9.1 Power of attorney

From the Effective Time, each Eligible Securityholder and each Ineligible Foreign Securityholder, without the need for any further act, irrevocably appoints Distribution and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of:

- a) enforcing the NewCo Deed Poll against NewCo; and
- b) executing any document or doing or taking any other act, necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by them, including (without limitation) executing the transfer of Distribution Shares.

Distribution as attorney and agent of each Eligible Securityholder and each Ineligible Foreign Securityholder, may sub-delegate its functions, authorities or powers under this clause 9.1 to all or any of its directors, officers or employees (jointly, severally or jointly and severally).

9.2 Instructions

Binding instructions or notifications between an Eligible Securityholder and Distribution relating to Stapled Securities or an Eligible Securityholder's status as a Securityholder (including, without limitation, any instructions relating to payment of dividends or communications from Distribution) will (to the extent permitted by law), from the Record Date, be deemed by reason of this Scheme to be similarly binding instructions or notifications to, and accepted by, NewCo in respect of the NewCo Shares issued to the Eligible Securityholder until those instructions or notifications are, in each case, revoked or amended in writing addressed to NewCo or its share registry. Each Eligible Securityholder agrees that Distribution holds the benefit of this clause 9.2 for NewCo.

9.3 Variations, alterations and conditions

If the Court proposes to approve this Scheme subject to any alterations or conditions, Distribution may, by its counsel or solicitor, consent on behalf of all persons concerned to those alterations or conditions provided that in no circumstances will Distribution be obliged to do so.

9.4 Further action by Distribution

Distribution must do all things and execute all documents (on its own behalf and on behalf of each Eligible Securityholder and each Ineligible Foreign Securityholder) necessary or expedient to give full effect to this Scheme and the transactions contemplated by them.

9.5 Authority and acknowledgement

Each of the Eligible Securityholders and each of the Ineligible Foreign Securityholders:

- a) irrevocably consents to Distribution doing all things necessary or expedient for or incidental to the implementation of this Scheme; and
- b) acknowledges that this Scheme binds Distribution and each Eligible Securityholder and each Ineligible Foreign Securityholder (including those who did not attend the Scheme Meeting, did not vote at that meeting or voted against this Scheme at that meeting).

9.6 No liability when acting in good faith

Neither Distribution nor any of its officers will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

9.7 Enforcement of NewCo Deed Poll

Distribution undertakes in favour of each Eligible Securityholder and each Ineligible Foreign Securityholder to enforce the NewCo Deed Poll on behalf of and as agent and attorney for each Eligible Securityholder and each Ineligible Foreign Securityholder.

9.8 Stamp duty

Distribution must pay all stamp duty (including any fines, penalties and interest) payable in connection with this Scheme.

9.9 Scheme overrides Distribution Constitution

To the extent of any inconsistency and to the extent permitted by law, this Scheme overrides the Distribution Constitution and binds Distribution and Distribution Shareholders.

9.10 Notices

- a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Distribution, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Distribution's registered office or at the office of the Registry.
- b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Distribution Shareholder shall not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

10 Governing law

10.1 Governing law

This Scheme is governed by the law in force in Victoria.

10.2 Jurisdiction

Each party irrevocably and unconditionally:

- a) submits to the non-exclusive jurisdiction of the courts of that place; and
- b) waives, without limitation, any claim or objection based on absence of jurisdiction or inconvenient forum.

Annexure E – AusNet Services Trust Constitution Amendments

The AusNet Services Trust Constitution is amended by inserting new clauses 24 to 29 to the AusNet Services Trust Constitution as set out below.

24 Proposal generally

24.1 Definitions

In clauses 24 to 29, unless the context otherwise requires:

AusNet Services means the triple-Stapled entity consisting of Transmission, Distribution and Finance.

CHESS means the Clearing House Electronic Subregister System for the electronic transfer of securities, operated by ASX Settlement Pty Ltd ABN 49 008 504 532.

Company Scheme means either of the Transmission Scheme or Distribution Scheme, and **Company Schemes** means both of them.

Consolidated NewCo Share means a share in NewCo on issue immediately subsequent to the conversion of NewCo Shares into that number of NewCo Shares equal to the number of Stapled Securities that had been on issue at the Record Date.

Court means the Supreme Court of Victoria.

Distribution means AusNet Services (Distribution) Ltd (ACN 108 788 245).

Distribution Scheme means the scheme of arrangement pursuant to Part 5.1 of the Corporations Act between Distribution and the Distribution Shareholders, substantially in the form annexed to the Securityholder Booklet, together with any alterations or conditions made by Distribution to which NewCo agrees or made or required by the Court under section 411(6) of the Corporations Act, or otherwise desirable or necessary to comply with applicable law.

Distribution Share means one fully paid ordinary share issued in the capital of Distribution.

Distribution Shareholder means a person registered as the holder of a Distribution Share, including any person jointly registered and **Distribution Shareholders** means all of them.

Effective means all of the following events taking place:

- a) in relation to each of the Company Schemes, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) but in any event at no time before an office copy of the orders of the Court is lodged with ASIC; and
- b) in relation to the Trust Scheme, the Trust Constitution Amendments coming into effect pursuant to section 601GC(2) of the Corporations Act.

Effective Date means the earliest date on which all of the Schemes become Effective.

Effective Time means the earliest time and date on which all of the Schemes become Effective.

Eligible Securityholder means the Scheme Participants (other than Ineligible Foreign Securityholders) and the Sale Nominee in respect of the Ineligible Securities.

Encumbrance means any security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement and any “security interest” as defined in sections 12(1) or (2) of the PPSA, or any agreement to create any of them or allow them to exist.

Foreign Securityholder means a Securityholder at 7.00pm on the Record Date:

- a) who is (or who is acting on behalf of) a citizen or resident of a place outside Australia and its external territories; or
- b) whose address shown in the Stapled Security Register is a place outside Australia and its external territories (or who is acting on behalf of such a person).

Implementation means the completion of all the Implementation Steps in accordance with clause 5.1 of the Implementation Deed.

Implementation Date means the date on which Implementation occurs, being a date no later than the eighth Business Day after the Effective Date (or such other date as the parties to the Implementation Deed may agree).

Implementation Deed means the Implementation Deed dated 14 April 2015 between Transmission, Distribution, the Trustee as responsible entity of the Trust and NewCo.

Implementation Step means each of the steps set out in Schedule 1 of the Implementation Deed.

Ineligible Distribution Share has the meaning in clause 25.1.

Ineligible Foreign Securityholder has the meaning given in clause 25.1.

Ineligible Securities means Ineligible Transmission Shares, Ineligible Distribution Shares and Ineligible Units.

Ineligible Transmission Share has the meaning given in clause 25.1.

Ineligible Unit has the meaning given in clause 25.1.

Meetings means the meetings for which notice is given under the Securityholder Booklet.

NewCo means AusNet Services Ltd (ACN 603 317 559).

NewCo Constitution means the constitution of NewCo.

NewCo Deed Poll means the deed poll under which NewCo covenants in favour of each Eligible Securityholder and each Ineligible Foreign Securityholder to perform acts attributed to it under the Schemes, signed on or about the date of the Implementation Deed.

NewCo Shares means fully paid ordinary shares in NewCo.

Proposal means the proposed restructure of AusNet Services, pursuant to which NewCo would be established as the ultimate parent with the Stapled Entities becoming wholly owned entities of NewCo, as described in the Securityholder Booklet (including the Schemes).

Record Date means the third Business Day following the Effective Date, or such other date as agreed by the parties to the Implementation Deed.

Registry means Computershare Investor Services Pty Limited (ABN 48 078 279 277).

Relevant Sale Facility Consideration means, in relation to each Ineligible Foreign Securityholder, an amount equal to the average price at which Sale Securities are sold by the Sale Nominee under the Sale Facility plus any dividend received per Sale Security, multiplied by the corresponding number of Ineligible Securities (calculated as a Stapled Security) of that Ineligible Foreign Securityholder, less any reasonable applicable brokerage, stamp duty and other selling costs, taxes and charges (to the extent not met by Transmission, Distribution and the Trustee) (subject to rounding to the nearest whole cent or, if the amount calculated is exactly half a cent, subject to rounding down to the nearest whole cent).

Resolution means a resolution substantially in the form set out in the Securityholder Booklet.

Sale Facility means the facility to be established and implemented by the Trustee, in agreement with Transmission and Distribution, under which Ineligible Units (along with Ineligible Distribution Shares and Ineligible Transmission Shares) are transferred to the Sale Nominee and Sale Securities are sold on ASX in accordance with clause 27.

Sale Facility Account means the account established by the Sale Nominee in its own name, into which the Sale Nominee must deposit the gross sale proceeds received in respect of the Sale Securities.

Sale Nominee means the entity appointed by Transmission, Distribution and the Trustee to act as the sale facility nominee under the Schemes.

Sale Period means the 29 day period commencing on the date on which Consolidated NewCo Shares commence trading on a normal (T+3) settlement basis.

Sale Security means a Consolidated NewCo Share held by the Sale Nominee following participation by the Sale Nominee in the implementation of the Proposal in respect of the Ineligible Securities that is, or is to be, sold under the Sale Facility.

Scheme means this Trust Scheme.

Scheme Participant means a Securityholder at 7.00pm on the Record Date, and **Scheme Participants** means all of them.

Schemes means all of the Transmission Scheme, Distribution Scheme and the Trust Scheme.

Second Court Date means the date on which the Court makes orders pursuant to section 411(4)(b) of the Corporations Act approving the Company Schemes.

Securityholder means a person who is registered in the Stapled Security Register as the holder of Stapled Securities who is also relevantly a Transmission Shareholder, Distribution Shareholder or Unit Holder, whether together as the holder of Stapled Securities or separately as the context may require, and **Securityholders** means all of them.

Securityholder Booklet means the notices of meeting, explanatory statement and accompanying materials in connection with the Proposal dated 22 April 2015 despatched to the Securityholders.

Subscription Form means a duly completed and executed proper instrument of subscription for the NewCo Shares, which may be a master subscription form.

Transfer Form means a duly completed and executed proper instrument of transfer for the Units for the purposes of section 1071B of the Corporations Act, which may be a master transfer form.

Transmission means AusNet Services (Transmission) Ltd (ACN 116 124 362).

Transmission Scheme means the scheme of arrangement pursuant to Part 5.1 of the Corporations Act between Transmission and the Transmission Shareholders, substantially in the form annexed to the Securityholder Booklet, together with any alterations or conditions made by Transmission to which NewCo agrees or made or required by the Court under section 411(6) of the Corporations Act, or otherwise desirable or necessary to comply with applicable law.

Transmission Share means one fully paid ordinary share issued in the capital of Transmission.

Transmission Shareholder means a person registered as the holder of a Transmission Share, including any person jointly registered and **Transmission Shareholders** means all of them.

Trust Constitution Amendments means the amendments to the Trust Constitution to enable the Trust Scheme.

Trust Scheme means the arrangement, in accordance with *Guidance Note 15: Listed Trusts and Managed Investment Scheme Mergers* issued by the Takeovers Panel, under which NewCo acquires all of the Units facilitated by amendments to the Trust Constitution as set out in clauses 24 to 29.

24.2 Implementation steps

The Trustee acknowledges that under the Implementation Deed, the implementation steps for the Proposal will take place at the times and in the order described in the Implementation Deed, including the Unstapling of the Stapled Securities which will occur immediately before the first of the transfers under clause 25, and on the condition that the Trustee must not affect the transfer at clause 25.3 unless and until after the transfer at clause 5.4 of the Transmission Scheme and then followed by an election to continue the Transmission tax consolidated group have been completed in that order.

25 Implementation of Scheme

25.1 Determination of Ineligible Foreign Securityholders

- a) After the Record Date and prior to the Implementation Date, the Trustee must in agreement with Transmission and Distribution determine whether a Foreign Securityholder, or a class of Foreign Securityholders, is eligible to have issued to it NewCo Shares.
- b) The determination under clause 25.1(a) is to be made having regard to whether the participation of the Foreign Securityholder in the Proposal would be lawful and not unduly onerous for NewCo or the Stapled Entities under the laws of a place outside Australia and its external territories.
- c) A determination under clause 25.1(a) may specify that a Foreign Securityholder is eligible to participate in respect of some or all of its Stapled Securities (comprising Transmission Shares, Distribution Shares and Units) held at 7.00pm on the Record Date, with or without conditions.

- d) A Foreign Securityholder may only receive NewCo Shares in accordance with the determination under clause 25.1(a) and is not otherwise eligible to receive NewCo Shares in respect of any of its Stapled Securities (comprising Transmission Shares, Distribution Shares and Units). For the purposes of this Scheme:
 - i) each such Foreign Securityholder which is ineligible to receive NewCo Shares in respect of all or some of its Stapled Securities is referred to as an Ineligible Foreign Securityholder;
 - ii) each Transmission Share, Distribution Share and Unit comprising a Stapled Security in respect of which the Ineligible Foreign Securityholder is ineligible to receive NewCo Shares is referred to as an Ineligible Transmission Share, Ineligible Distribution Share or Ineligible Unit; and
 - iii) a reference to an Ineligible Foreign Securityholder only applies in relation to its Ineligible Transmission Shares, Ineligible Distribution Shares or Ineligible Units.
- e) The determination under clause 25.1(a) is final and conclusive of a Foreign Securityholder's eligibility to receive NewCo Shares.

25.2 Transfer to Sale Nominee

- a) After the Record Date and on or prior to the Implementation Date, all of the Ineligible Units together with all rights and entitlements attaching to those Ineligible Units will be transferred to the Sale Nominee without the need for any further act by any Ineligible Foreign Securityholders (other than acts performed by the Trustee (or its directors or officers) as attorney and agent for the Ineligible Foreign Securityholders).
- b) The Trustee must procure that the Sale Nominee accepts, the transfer of Ineligible Units under clause 25.2(a) by immediately executing the Transfer Form as transferee and delivering it to the Trustee for registration.
- c) In order to give effect to the transfer of Ineligible Units under clause 25.2(a), the Trustee will:
 - i) as attorney and agent for each Ineligible Foreign Securityholder, execute the Transfer Form, which was previously duly completed and executed by the Sale Nominee, to transfer all Ineligible Units to the Sale Nominee; and
 - ii) register the transfer of Ineligible Units and enter the name of the Sale Nominee in the Register in respect of all Ineligible Units transferred under clause 25.2(a).

25.3 Transfer to NewCo

Following the transfers set out in clause 25.2 and subject to the provision of the NewCo Shares in the manner contemplated by clause 26:

- a) on the Implementation Date, all of the Units held by Eligible Securityholders together with all rights and entitlements attaching to those Units will be transferred to NewCo without the need for any further acts by any Eligible Securityholders (other than acts performed by the Trustee (or its directors or officers) as attorney and agent for the Eligible Securityholders);
- b) the Trustee must procure that NewCo accepts, the transfer of Units under clause 25.3(a) by immediately executing the Transfer Form as transferee and delivering it to the Trustee for registration;

- c) in order to give effect to the transfer of Units under clause 25.3(a), the Trustee will:
 - i) as attorney and agent for each Eligible Securityholder, execute the Transfer Form, which was previously duly completed and executed by NewCo, to transfer all Units held by the Eligible Securityholders to NewCo; and
 - ii) as soon as possible following receipt of the Transfer Form, register the transfer of Units and enter the name of NewCo in the Register in respect of all Units transferred under clause 25.3(a).

25.4 Scheme Participants' agreements

Each Scheme Participant agrees to the transfer of all of their Units together with all rights and entitlements attaching to those Units in accordance with this clause 25 and agrees to any variation, cancellation or modification of their rights constituted by or resulting from this clause 25.

25.5 Scheme Participants' warranties

Each Scheme Participant is taken to have warranted to the Trustee and NewCo (and in the case of an Ineligible Foreign Securityholder, to the Sale Nominee), and appointed and authorised the Trustee as its attorney and agent to warrant to NewCo (and in the case of an Ineligible Foreign Securityholder, to the Sale Nominee), that:

- a) to the extent permitted by law, the Units transferred under this clause 25 will be transferred free from all Encumbrances; and
- b) they have full power and capacity to sell and to transfer their Units (including any rights and entitlements attaching to those Units) under this Scheme.

The Trustee will hold as attorney and agent of each Scheme Participant the benefit of such warranties for NewCo (and in the case of an Ineligible Foreign Securityholder, for the Sale Nominee).

25.6 Title and rights in Units

- a) To the extent permitted by law, the Units transferred under this clause 25 will be transferred free from all Encumbrances.
- b) NewCo will be beneficially entitled to the Units transferred to it under this clause 25 pending registration by the Trustee of NewCo in the Register as Unit Holder.

26 NewCo Shares

26.1 Subscribing for NewCo Shares

- a) In consideration for the transfer of Units under clause 25.3(a), each Eligible Securityholder will be entitled to receive 1 NewCo Share for every 1 Unit transferred under this Scheme.
- b) The Trustee, as attorney and agent for each Eligible Securityholder, will apply for the number of NewCo Shares to be issued to that Eligible Securityholder under this Scheme.
- c) On the Implementation Date and following the transfers set out in clause 25.2, in order to apply for the issue of NewCo Shares under clause 26.1(b), the Trustee will as attorney and agent for each Eligible Securityholder duly complete and execute the Subscription Form in respect of all the NewCo Shares to be issued under this Scheme for the Eligible Securityholders.

- d) Each Eligible Securityholder:
 - i) accepts the NewCo Shares under this Scheme; and
 - ii) agrees to become a member of NewCo and be bound by the NewCo Constitution.

26.2 Issue of NewCo Shares

- a) On the Implementation Date, in consideration for the transfer of Units to NewCo, the Trustee must procure that NewCo:
 - i) issues the NewCo Shares to each Eligible Securityholder as it is entitled under this Scheme;
 - ii) enters the name and address of each Eligible Securityholder in the NewCo members register in respect of the NewCo Shares to which it is entitled under this Scheme; and
 - iii) ensures that each such NewCo Share is duly and validly issued in accordance with all applicable laws and the NewCo Constitution.
- b) In the case of Units held in joint names, the NewCo Shares to be issued under this Scheme must be issued to and registered in the names of the joint holders.
- c) The entitlement of the Ineligible Foreign Securityholders under this Scheme is satisfied by the Trustee providing the NewCo Shares to which the Ineligible Foreign Securityholder would have been entitled (had they been determined to be eligible) to the Sale Nominee, and the Sale Nominee and the Trustee complying with the sale facility provisions under clause 27.

26.3 Status of NewCo Shares

- a) NewCo Shares issued to Eligible Securityholders under this Scheme will rank equally in all respects with all existing NewCo Shares.
- b) On issue, each NewCo Share issued to Eligible Securityholders will be fully paid and free from any Encumbrance.
- c) NewCo must use all reasonable endeavours to ensure that NewCo Shares issued for the Schemes are, by no later than the date after the Effective Date, quoted for trading on ASX on a deferred settlement basis.

26.4 Consolidated NewCo Shares

Each Eligible Securityholder agrees and acknowledges that, after the issue of NewCo Shares under the Schemes, the NewCo Shares they hold will be converted into that number of NewCo Shares equal to:

- a) for a Scheme Participant (other than an Ineligible Foreign Securityholder), the number of Stapled Securities they held on the Record Date; and
- b) for the Sale Nominee, the number of Ineligible Securities held by Ineligible Foreign Securityholders (calculated as a Stapled Security) on the Record Date.

26.5 Despatch of holding statements

As soon as practicable after the Implementation Date, NewCo must send a certificate or holding statement (or equivalent document) to the registered address of each Scheme Participant representing the number of Consolidated NewCo Shares each Scheme Participant holds pursuant to the Schemes.

27 Sale Facility

27.1 Appointment

The Trustee, together with Transmission and Distribution, must, prior to the Implementation Date, appoint the Sale Nominee and must procure that the Sale Nominee perform all acts attributed to it under the Schemes and any other things necessary to give effect to the sale facility under this clause 27.

27.2 Disposal of Consolidated NewCo Shares

The Trustee will enforce its contractual rights against the Sale Nominee to require that:

- a) as soon as is reasonably practicable after the Implementation Date following the conversion pursuant to clause 26.4, the Sale Nominee sells the Sale Securities in such manner, at such prices and at such times as the Sale Nominee sees fit and determines in good faith, with the objectives of:
 - i) achieving the best price for the Sale Securities that is reasonably obtainable at the time of the relevant sale; and
 - ii) ensuring all sales of the Sale Securities are effected in the ordinary course of trading on ASX during the Sale Period;
- b) the Sale Nominee promptly deposits (or procures the deposit of) the gross sale proceeds and any dividends received in respect of the Sale Securities into the Sale Facility Account;
- c) once all the Sale Securities are sold, the Sale Nominee advises the Registry of the completion of the sale of the Sale Securities, the total gross sale proceeds and the total dividends received in respect of Sale Securities, the average price and dividend received for each Sale Security, and the amount of any reasonable applicable brokerage, stamp duty and other selling costs, taxes and charges (to the extent not met by Transmission, Distribution and the Trustee) deducted; and
- d) once settlement of the sale of all the Sale Securities has occurred, and in no case later than 2 Business Days thereafter, the Sale Nominee transfers the total gross sale proceeds and the total dividends received in the Sale Facility Account less any reasonable applicable brokerage, stamp duty and other selling costs, taxes and charges (to the extent not met by Transmission, Distribution and the Trustee) to the Registry.

27.3 Update by the Registry

The Trustee must procure that the Registry:

- a) following receipt of information from the Sale Nominee in accordance with paragraph 27.2(c), calculates the Relevant Sale Facility Consideration for each Ineligible Foreign Securityholder; and
- b) no later than 5 Business Days after the Sale Nominee has transferred the total gross sale proceeds and the total dividends received in the Sale Facility Account less any reasonable applicable brokerage, stamp duty and other selling costs, taxes and charges (to the extent not met by Transmission, Distribution and the Trustee) in accordance with paragraph 27.2(d), arranges in respect of each Ineligible Foreign Securityholder for payment of the Relevant Sale Facility Consideration by either:

- i) dispatching by mail to the registered address of that Ineligible Foreign Securityholder a cheque or bank draft of the Relevant Sale Facility Consideration for that Ineligible Foreign Securityholder payable in Australian dollars (provided that, in the case of Ineligible Foreign Securityholders who are joint holders of Units, the cheque will be made payable to the joint holders and sent to the holder whose name appears first in the Stapled Security Register as at 7.00pm on the Record Date); or
- ii) making an electronic funds transfer in Australian dollars to an account nominated by that Ineligible Foreign Securityholder for the purposes of the Sale Facility or the payment of distributions by the Stapled Entities.

27.4 Relevant Sale Facility Consideration

- a) Each Ineligible Foreign Securityholder agrees that the payment of the Relevant Sale Facility Consideration is a full discharge of the obligations of the Trustee under this clause 27.
- b) The total consideration received by an Ineligible Foreign Securityholder for their Ineligible Securities (calculated as a Stapled Security) held at 7.00pm on the Record Date must not exceed the Relevant Sale Facility Consideration, whether received under any or all of the Schemes or otherwise.
- c) Each Ineligible Foreign Securityholder agrees that their entitlement to the Relevant Sale Facility Consideration is subject to compliance with applicable law (including on conduct of the sale facility and remittance of funds).

28 Dealings in Units

28.1 Determination of identity

To establish the identity and addresses of the Scheme Participants, dealings in Stapled Securities and other alterations to the Stapled Security Register will only be recognised if:

- a) in the case of dealings of the type to be effected using CHES, the transferee is registered in the Stapled Security Register as the holder of the relevant Stapled Securities on or before 7.00pm on the Record Date; and
- b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 5.00pm on the Record Date at the place where the Stapled Security Register is kept.

28.2 Stapled Security Register

- a) The Trustee must register any registrable transmission applications or transfers of the Stapled Securities received in accordance with clause 28.1(b) on or before 5.00pm on the Record Date.
- b) If the Schemes become Effective, a Securityholder (and any person claiming through that holder) must not dispose of or purport or agree to dispose of any Stapled Securities or any interest in them after the Effective Date.
- c) The Trustee will not accept for registration or recognise for any purpose any transmission, application or transfer in registrable form or other request in respect of Stapled Securities received after 5.00pm on the Record Date, or received prior to such time but not in registrable or actionable form (except a transfer to the Sale Nominee or NewCo pursuant to clause 25 and any subsequent transfer by NewCo or its successors in title).

- d) For the purpose of determining entitlements to the NewCo Shares, the Trustee will maintain the Stapled Security Register and the Register in accordance with the provisions of this clause 28.2 and, following the registration of the transfer of the Ineligible Units from Ineligible Foreign Securityholders to the Sale Nominee and the entry of the name of the Sale Nominee in the Register referred to in clause 25.2(c), the Register in this form will solely determine entitlements to the NewCo Shares.
- e) Any statements of holding in respect of Stapled Securities will cease to have effect after 7.00pm on the Record Date as documents of title in respect of those Stapled Securities (other than statements of holding in favour of NewCo and its successors in title). After 7.00pm on the Record Date, each entry current on the Stapled Security Register as at 7.00pm on the Record Date (other than entries in respect of NewCo or its successors in title) will cease to have effect except as evidence of entitlement to the NewCo Shares.
- f) As soon as possible on or after the Record Date, and in any event within one Business Day after the Record Date, the Trustee will ensure that details of the names, registered addresses and Stapled Securities holdings for each Securityholder as shown in the Stapled Security Register as at the Record Date are available to NewCo in the form NewCo reasonably requires.

28.3 Quotation of Units

- a) The Units will only trade on the ASX as part of the Stapled Securities until the close of trading on the ASX on the Effective Date.
- b) As soon as practical after the Implementation Date, the Trustee will apply:
 - i) for termination of the official quotation of the Units on ASX; and
 - ii) to have the Trust removed from the official list of ASX.

29 General Scheme provisions

29.1 Power in connection with Proposal

Without limiting the Trustee's powers under this deed, with effect from the Effective Time, the Trustee has power to do all things which the Trustee considers are necessary, desirable or incidental to give effect to the Proposal, including under the Implementation Deed.

29.2 Power of attorney

From the Effective Time, each Eligible Securityholder and each Ineligible Foreign Securityholder, without the need for any further act, irrevocably appoints the Trustee and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of:

- a) enforcing the NewCo Deed Poll against NewCo; and
- b) executing any document or doing or taking any other act, necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by them, including (without limitation) executing the transfer of Units.

The Trustee as attorney and agent of each Eligible Securityholder and each Ineligible Foreign Securityholder, may sub-delegate its functions, authorities or powers under this clause 29.2 to all or any of its directors, officers or employees (jointly, severally or jointly and severally).

29.3 Instructions

Binding instructions or notifications between an Eligible Securityholder and the Trustee relating to Stapled Securities or an Eligible Securityholder's status as a Securityholder (including, without limitation, any instructions relating to payment of distributions or communications from the Trustee) will (to the extent permitted by law), from the Record Date, be deemed by reason of this Scheme to be similarly binding instructions or notifications to, and accepted by, NewCo in respect of the NewCo Shares issued to the Eligible Securityholder until those instructions or notifications are, in each case, revoked or amended in writing addressed to NewCo or its share registry. Each Eligible Securityholder agrees that the Trustee holds the benefit of this clause 29.3 for NewCo.

29.4 Binding effect of Trust Constitution Amendments

From the Effective Time:

- a) clauses 24 to 29 bind the Trustee and all of the present and future Unit Holders (including those who did not attend the Meetings, did not vote at the Meetings, or voted against the Resolutions) and, to the extent of any inconsistency, overrides any other part of this deed;
- b) the Trustee and, so far as is relevant, the Unit Holders, must give effect to this Scheme in accordance with its terms;
- c) without limiting clause 8.2 and subject to section 601GA(2) of the Corporations Act, the Trustee shall not have any liability of any nature to Unit Holders beyond the assets of the Trust out of which the Trustee is actually indemnified arising directly or indirectly from the Trustee doing or refraining from any act, matter or thing pursuant to or in connection with this Scheme; and
- d) the Trustee may amend the terms of this Scheme if such amendment is not inconsistent with the approval given by Unit Holders under the Resolutions and clauses 24 to 29 shall apply to this Scheme as amended.

29.5 Further action

The Trustee must do all things and execute all documents (on its own behalf and on behalf of each Eligible Securityholder and each Ineligible Foreign Securityholder) necessary or expedient to give full effect to this Scheme and the transactions contemplated by them.

29.6 Consent

Each of the Eligible Securityholders and each of the Ineligible Foreign Securityholders consents to the Trustee doing all things necessary or expedient for or incidental to the implementation of the Schemes.

Annexure F – Notice of Scheme Meetings

By order of the Supreme Court of Victoria made on 21 April 2015 pursuant to section 411(1) of the Corporations Act, meetings of holders of fully paid ordinary shares in each of AusNet Services (Distribution) Ltd (AusNet Services Distribution) and AusNet Services (Transmission) Ltd (AusNet Services Transmission) will be held on Friday, 29 May 2015 commencing from 9.30am (Melbourne time) at Meeting Room 220, Melbourne Convention & Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia.

The Court has directed that Mr Ng Kee Choe act as chairman of the meetings or, failing him, Mr Tony Iannello.

Information about the Schemes is set out in the Securityholder Booklet that accompanies this notice. Terms used in this notice have the same meaning as set out in the Glossary in the Securityholder Booklet, unless indicated otherwise.

BUSINESS OF THE SCHEME MEETINGS

The business to be considered at the Scheme Meetings is to consider and, if thought fit, to agree (with or without modification) to two separate schemes of arrangement proposed to be made between each of AusNet Services Distribution and AusNet Services Transmission and the respective holders of their fully paid ordinary shares.

1. AusNet Services Transmission Company Scheme Resolution

"That, pursuant to, and in accordance with section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between AusNet Services (Transmission) Ltd and the holders of its ordinary shares as contained in and more precisely described in the Securityholder Booklet of which the notice convening this meeting forms part is approved (with or without modification as approved by the Supreme Court of Victoria)."

2. AusNet Services Distribution Company Scheme Resolution

"That, pursuant to, and in accordance with section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between AusNet Services (Distribution) Ltd and the holders of its ordinary shares as contained in and more precisely described in the Securityholder Booklet of which the notice convening this meeting forms part is approved (with or without modification as approved by the Supreme Court of Victoria)."

By order of the boards of AusNet Services Transmission and AusNet Services Distribution.

Susan Taylor
Company Secretary

22 April 2015

INFORMATION FOR SECURITYHOLDERS

These accompanying explanatory notes form part of this notice and should be read in conjunction with it.

Required majority

The resolutions described in items 1 and 2 of the "Business" section of this notice will be passed if they are approved by a majority in number of Securityholders and at least 75% of votes cast by Securityholders entitled to vote on the resolutions.

Voting and proxies

Eligibility to vote

For the purposes of determining entitlement to vote at the Scheme Meetings, AusNet Services Stapled Securities will be taken to be held by those registered as holders at 7.00pm on Wednesday, 27 May 2015 (Melbourne time). Transactions registered after that time will be disregarded in determining Securityholders' entitlement to vote at the Scheme Meetings.

AusNet Services Stapled Securities listed on SGX-ST and deposited with CDP

If your AusNet Services Stapled Securities are listed on SGX-ST and deposited with CDP, you do not have the right to vote as a Securityholder because your AusNet Services Stapled Securities are registered in the name of CDP. In order to vote, your voting instructions must be received by CDP by 5.00pm (Singapore time) on Wednesday, 20 May 2015. Instructions on how to lodge your voting instructions with CDP are included in the orange CDP Voting Instruction Form accompanying this notice. If you wish to attend the Scheme Meetings, please follow the procedures set out in the CDP Voting Instruction Form.

Appointing a proxy

You can appoint a proxy to attend and vote on your behalf. A personalised Proxy Form accompanies this notice.

A proxy need not be a Securityholder and may be an individual or a body corporate.

The Securityholder, or the Securityholder's attorney who has not received any notice of revocation of the authority, must sign the Proxy Form.

Proxies given by a body corporate must be signed by a director, company secretary, sole director and sole company secretary or under the hand of a duly authorised officer or attorney.

If you are entitled to cast two or more votes, you may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If you do not specify a proportion or number, each proxy may exercise half of the votes.

If you appoint two proxies to vote, neither proxy may vote on a show of hands if more than one proxy attends. On a poll, each proxy may only exercise votes in respect of those AusNet Services Stapled Securities or voting rights the proxy represents.

Lodging your Proxy Form

Completed and signed Proxy Forms (together with any power of attorney or other authority under which the appointment was signed or a certified copy of the authority) must be returned by 10.00am on Wednesday, 27 May 2015 (Melbourne time).

You can lodge your completed Proxy Form, letter of representation or power of attorney:

a) in person to:

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford, VIC 3067
Australia

b) by mail to:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne, VIC 3001
Australia
(A reply paid envelope is enclosed)

c) by fax to:

Computershare Investor Services Pty Limited
1800 783 447 (within Australia)
+61 3 9473 2555 (outside Australia)

d) online at:

www.investorvote.com.au

To use this facility you will need your Proxy Form as it contains your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) which is your Personal Identification Number (PIN) to verify the transmission. You will be taken to have signed your Proxy Form if you lodge it in accordance with the instructions on the website. (Note: this facility is not available for attorneys.)

Proxy Forms may also be delivered or faxed to AusNet Services' registered office at:

Company Secretary
Level 31, 2 Southbank Boulevard
Southbank, VIC 3006
Australia
Fax: +61 3 9695 6307

If you appoint a proxy or attorney, you may still attend the Scheme Meetings. However, if you vote on a resolution, the proxy or attorney is not entitled to vote as your proxy or attorney on the resolution. Accordingly, you will be asked if you wish to revoke your proxy if you register to vote at the Scheme Meetings.

Undirected and directed proxies

You are encouraged to actively direct your proxy how to vote on each item of business by marking the appropriate boxes on the Proxy Form.

If you intend to appoint the Chairman of the Scheme Meetings as your proxy, or the Chairman of the Scheme Meetings is appointed as your proxy by default, you can direct him how to vote by marking the relevant boxes on your Proxy Form, or you can leave all of the boxes unmarked and give the Chairman of the Scheme Meetings your express authority to vote your undirected proxy as he sees fit (in which case the Chairman of the Scheme Meetings will vote in favour of all items of business).

Corporate Securityholders

Corporate Securityholders who wish to appoint a representative to attend and vote at the Scheme Meetings on their behalf must provide that person with a properly executed letter or other document confirming that they are authorised to act as that Securityholder's representative. A form of authorisation may be obtained from the Registry.

Admission to Scheme Meetings

If you attend the Scheme Meetings, please bring your personalised Proxy Form with you. The bar code at the top of the Proxy Form will help you to register. If you do not bring your Proxy Form with you, you will still be able to attend the Scheme Meetings, but representatives from the Registry will need to verify your identity.

Corporate representatives are requested to bring a copy of the letter of representation pursuant to which they were appointed.

This will also apply where you appoint a body corporate as your proxy. The body corporate will need to ensure that it appoints an individual as its corporate representative to attend and vote for that corporation at the Scheme Meetings. Attorneys are requested to bring a certified copy of the power of attorney pursuant to which they were appointed. Proof of identity will also be required.

You will be able to register from 9.00am (Melbourne time) on the day of the Scheme Meetings.

Webcast and your privacy

A live audio webcast of the Scheme Meetings will be available on AusNet Services' website at www.ausnetservices.com.au.

Attendees at the Scheme Meetings may be video recorded and the tapes may be viewed at the discretion of AusNet Services for security purposes.

Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Company Schemes (with or without modification) must be approved by an order of the Court. If the Scheme Resolutions put to these meetings are passed by the required majorities and the other conditions precedent to the Company Schemes are satisfied or waived (including each of the General Meetings Resolutions being passed by each of AusNet Services Distribution and AusNet Services Transmission, AusNet Services intends to apply to the Court on Thursday, 4 June 2015 for approval of the Company Schemes.

Annexure G – Notice of General Meetings

Notice is hereby given that the extraordinary general meetings of members of AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd and AusNet Services Finance Trust will be held concurrently on Friday, 29 May 2015 commencing at 10.00am (Melbourne time) (or as soon thereafter as the Scheme Meetings have concluded or been adjourned) at Meeting Room 220, Melbourne Convention & Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia.

Information in relation to the Resolutions below is set out in the Securityholder Booklet that accompanies this notice. Terms used in this notice have the same meaning as set out in the Glossary in the Securityholder Booklet, unless indicated otherwise.

BUSINESS OF THE GENERAL MEETINGS

The business to be considered at the General Meetings is to consider and, if thought fit, to pass the following resolutions of members of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Trust (as applicable) (each, a **General Meetings Resolution**):

1. Amendments to AusNet Services Trust Constitution

To consider and, if thought fit, to pass the following as a **special** resolution of **AusNet Services Trust**:

"That:

- a) *subject to and conditional upon the Company Schemes becoming Effective, the AusNet Services Trust Constitution be amended in accordance with the provisions set out in Annexure E and contained in a supplemental deed poll tabled at the Meetings and initialled by the Chairman for the purposes of identification; and*
- b) *AusNet Services Trustee, as responsible entity of AusNet Services Trust, be authorised to execute the supplemental deed poll and lodge it with ASIC to give effect to the AusNet Services Trust Constitution Amendments."*

2. Destapling of AusNet Services Stapled Securities

To consider and, if thought fit, to pass the following as a **special** resolution of each of **AusNet Services Distribution, AusNet Services Transmission and AusNet Services Trust**:

"That, subject to and conditional upon the Schemes becoming Effective, the destapling of AusNet Services Distribution Shares, AusNet Services Transmission Shares and AusNet Services Trust Units in accordance with the terms of the constitutions of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Trust, respectively, be approved."

3. Acquisition of AusNet Services Trust Units

To consider and, if thought fit, to pass the following as an **ordinary** resolution of **AusNet Services Trust**:

"That, subject to and conditional upon the Schemes becoming Effective, the acquisition by NewCo of a relevant interest in all of the AusNet Services Trust Units in connection with the implementation of the Trust Scheme, be approved for the purposes of item 7 of section 611 of the Corporations Act."

By order of the boards of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Trustee, as responsible entity of AusNet Services Trust.

Susan Taylor
Company Secretary

22 April 2015

INFORMATION FOR SECURITYHOLDERS

These accompanying explanatory notes form part of this notice and should be read in conjunction with it.

General Meetings

At present, AusNet Services Distribution Shares, AusNet Services Transmission Shares and AusNet Services Trust Units are stapled together to form AusNet Services Stapled Securities in accordance with the AusNet Services Constitutions. This means that all AusNet Services Securityholders are shareholders of each of AusNet Services Distribution and AusNet Services Transmission and unitholders of AusNet Services Trust and, as such, the meetings of these three entities are held concurrently.

Required majority

The resolutions described in items 1 and 3 of the "Business" section of this notice are special resolutions and will be passed if at least 75% of votes cast by Securityholders entitled to vote on the resolutions are cast in favour of the resolutions.

The resolution described in item 2 of the "Business" section of this notice is an ordinary resolution and will be passed if at least 50% of votes cast by Securityholders entitled to vote on the resolution are cast in favour of the resolution.

Voting and proxies

Eligibility to vote

For the purposes of determining entitlement to vote at the General Meetings, AusNet Services Stapled Securities will be taken to be held by those registered as holders at 7.00pm on Wednesday, 27 May 2015 (Melbourne time). Transactions registered after that time will be disregarded in determining Securityholders' entitlement to vote at the General Meetings.

AusNet Services Stapled Securities listed on SGX-ST and deposited with CDP

If your AusNet Services Stapled Securities are listed on SGX-ST and deposited with CDP, you do not have the right to vote as a Securityholder because your AusNet Services Stapled Securities are registered in the name of CDP. In order to vote, your voting instructions must be received by CDP by 5.00pm (Singapore time) on Wednesday, 20 May 2015. Instructions on how to lodge your voting instructions with CDP are included in the orange CDP Voting Instruction Form accompanying this notice. If you wish to attend the General Meetings, please follow the procedures set out in the CDP Voting Instruction Form.

Voting exclusions

In accordance with section 253E of the Corporations Act, AusNet Services Trustee and its associates are not entitled to vote their interest on any resolutions of AusNet Services Trust if they have an interest in the resolution or matter other than as a member.

In accordance with item 7 of section 611 of the Corporations Act, NewCo and its associates are not permitted to vote on the resolution described in item 2 of the "Business" section of this notice.

Appointing a proxy

You can appoint a proxy to attend and vote on your behalf. A personalised Proxy Form accompanies this notice.

A proxy need not be a Securityholder and may be an individual or a body corporate.

The Securityholder, or the Securityholder's attorney who has not received any notice of revocation of the authority, must sign the Proxy Form.

Proxies given by a body corporate must be signed by a director, company secretary, sole director and sole company secretary or under the hand of a duly authorised officer or attorney.

If you are entitled to cast two or more votes, you may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If you do not specify a proportion or number, each proxy may exercise half of the votes.

If you appoint two proxies to vote, neither proxy may vote on a show of hands if more than one proxy attends. On a poll, each proxy may only exercise votes in respect of those AusNet Services Stapled Securities or voting rights the proxy represents.

Lodging your Proxy Form

Completed and signed Proxy Forms (together with any power of attorney or other authority under which the appointment was signed or a certified copy of the authority) must be returned by 10.00am on Wednesday, 27 May 2015 (Melbourne time).

You can lodge your completed Proxy Form, letter of representation or power of attorney:

a) in person to:

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford, VIC 3067
Australia

b) by mail to:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne, VIC 3001
Australia
(A reply paid envelope is enclosed)

c) by fax to:

Computershare Investor Services Pty Limited
1800 783 447 (within Australia)
+61 3 9473 2555 (outside Australia)

d) online at:

www.investorvote.com.au

To use this facility you will need your Proxy Form as it contains your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) which is your Personal Identification Number (PIN) to verify the transmission. You will be taken to have signed your Proxy Form if you lodge it in accordance with the instructions on the website. (Note: this facility is not available for attorneys.)

Proxy Forms may also be delivered or faxed to AusNet Services' registered office at:

Company Secretary
Level 31, 2 Southbank Boulevard
Southbank, VIC 3006
Australia
Fax: +61 3 9695 6307

If you appoint a proxy or attorney, you may still attend the General Meetings. However, if you vote on a resolution, the proxy or attorney is not entitled to vote as your proxy or attorney on the resolution. Accordingly, you will be asked if you wish to revoke your proxy if you register to vote at the General Meetings.

Undirected and directed proxies

You are encouraged to actively direct your proxy how to vote on each item of business by marking the appropriate boxes on the Proxy Form.

If you intend to appoint the Chairman of the General Meetings as your proxy, or the Chairman of the General Meetings is appointed as your proxy by default, you can direct him how to vote by marking the relevant boxes on your Proxy Form, or you can leave all of the boxes unmarked and give the Chairman of the General Meetings your express authority to vote your undirected proxy as he sees fit (in which case the Chairman of the General Meetings will vote in favour of all items of business).

Corporate Securityholders

Corporate Securityholders who wish to appoint a representative to attend and vote at the General Meetings on their behalf must provide that person with a properly executed letter or other document confirming that they are authorised to act as that Securityholder's representative. A form of authorisation may be obtained from the Registry.

Admission to General Meetings

If you attend the General Meetings, please bring your personalised Proxy Form with you. The bar code at the top of the Proxy Form will help you to register. If you do not bring your Proxy Form with you, you will still be able to attend the General Meetings, but representatives from the Registry will need to verify your identity.

Corporate representatives are requested to bring a copy of the letter of representation pursuant to which they were appointed.

This will also apply where you appoint a body corporate as your proxy. The body corporate will need to ensure that it appoints an individual as its corporate representative to attend and vote for that corporation at the General Meetings. Attorneys are requested to bring a certified copy of the power of attorney pursuant to which they were appointed. Proof of identity will also be required.

You will be able to register from 9.00am (Melbourne time) on the day of the General Meetings.

Webcast and your privacy

A live audio webcast of the General Meetings will be available on AusNet Services' website at www.ausnetservices.com.au.

Attendees at the General Meetings may be video recorded and the tapes may be viewed at the discretion of AusNet Services for security purposes.

Glossary

Term	Meaning
AASB	Australian Accounting Standards.
AER	Australian Energy Regulator.
AEMC	Australian Energy Market Commission.
AEMO	Australian Energy Market Operator.
AFSL	Australian financial services licence.
AMI	Advanced Metering Infrastructure.
ASIC	the Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691) or the market operated by it, as the context requires.
ATO	Australian Taxation Office.
A\$	Australian dollars.
AusNet Services	AusNet Services group comprising AusNet Services Distribution, AusNet Services Transmission and AusNet Services Trust or, following implementation of the Proposal, NewCo, and in each case including all of their respective controlled entities, as the context requires.
AusNet Services Board	the board of directors of AusNet Services.
AusNet Services Constitutions	the AusNet Services Distribution Constitution, the AusNet Services Transmission Constitution and the AusNet Services Trust Constitution.
AusNet Services Directors	the directors of AusNet Services.
AusNet Services Distribution	AusNet Services (Distribution) Ltd (ABN 37 108 788 245).
AusNet Services Distribution Constitution	the constitution of AusNet Services Distribution.
AusNet Services Distribution Scheme	the scheme of arrangement pursuant to Part 5.1 of the Corporations Act between AusNet Services Distribution and AusNet Services Distribution Shareholders, substantially in the form contained in Annexure D, together with any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act.
AusNet Services Distribution Share	a fully paid ordinary share in the capital of AusNet Services Distribution.
AusNet Services Distribution Shareholder	a person registered as the holder of an AusNet Services Distribution Share, including any person jointly registered.
AusNet Services Securityholder or Securityholder	a person who is registered in the Register as the holder of AusNet Services Stapled Securities or as the holder of NewCo Shares, as the case may be.
AusNet Services Securityholder Information Line	1300 723 186 (within Australia) or +61 3 9415 4275 (outside Australia) at any time from 8.30am to 5.00pm (Melbourne time) Monday to Friday.
AusNet Services Stapled Security	an AusNet Services Transmission Share, an AusNet Services Distribution Share and an AusNet Services Trust Unit which are stapled such that they can only be dealt with together.
AusNet Services Transmission	AusNet Services (Transmission) Ltd (ABN 48 116 124 362).
AusNet Services Transmission Constitution	the constitution of AusNet Services Transmission.
AusNet Services Transmission Scheme	the scheme of arrangement pursuant to Part 5.1 of the Corporations Act between AusNet Services Transmission and AusNet Services Transmission Shareholders, substantially in the form contained in Annexure C, together with any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act.
AusNet Services Transmission Share	a fully paid ordinary share in the capital of AusNet Services Transmission.
AusNet Services Transmission Shareholder	a person registered as the holder of an AusNet Services Transmission Share, including any person jointly registered.
AusNet Services Trust	AusNet Services Finance Trust (ARSN 116 783 914) constituted under the AusNet Services Trust Constitution.
AusNet Services Trust Constitution	trust deed entitled Constitution – AusNet Services Finance Trust dated 19 July 2004, as amended from time to time.
AusNet Services Trust Constitution Amendments	the amendments to the AusNet Services Trust Constitution to enable the Trust Scheme.
AusNet Services Trust Loans	the financial accommodation provided by AusNet Services Trust to each of AusNet Services Distribution and AusNet Services Transmission.
AusNet Services Trustee	AusNet Services (RE) Ltd (ABN 46 109 977 371) (AFSL No. 294117) or any other company named in the ASIC's record as the responsible entity of AusNet Services Trust.
AusNet Services Trust Unit	a fully paid ordinary unit in AusNet Services Trust.
AusNet Services Trust Unit Holders	a person registered as the holder of an AusNet Services Trust Unit, including any person jointly registered.

Term	Meaning
Australian Tax Letter	the Australian taxation letter from Deloitte Lawyers Pty Ltd (ABN 91 099 885 800), as set out in section 4.
Business Day	a Business Day within the meaning given in the Listing Rules.
CDP	the Central Depository (Pte) Limited.
CDP Account Holders	a person named in the CDP Register as a person on whose behalf the CDP or its nominee holds one or more AusNet Services Stapled Securities or NewCo Shares, as the case may be.
CDP Register	a register maintained by CDP in respect of book-entry securities.
CDP Voting Instruction Form	the form accompanying the Notice of General Meetings and Notice of Scheme Meetings to be used by persons whose AusNet Services Stapled Securities are listed on SGX-ST and deposited with CDP, to lodge voting instructions with CDP.
CHESS	Clearing House Electronic Sub-register System, operated in accordance with the Corporations Act.
Company Schemes	the AusNet Services Distribution Scheme and the AusNet Services Transmission Scheme.
Corporations Act	<i>Corporations Act 2001</i> (Cth).
Court	the Supreme Court of Victoria.
CPI	Consumer Price Index.
CROIC	Cost Recovery Order in Council.
DRP	distribution reinvestment plan.
EBITDA	earnings before interest, taxes, depreciation and amortisation.
Effective	Means: a) in relation to each of the AusNet Services Distribution Scheme and the AusNet Services Transmission Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) but in any event at no time before an office copy of the orders of the Court is lodged with ASIC, and b) in relation to the Trust Scheme, the AusNet Services Trust Constitution Amendments coming into effect pursuant to section 601GC(2) of the Corporations Act.
Effective Date	the earliest date on which all of the Schemes become Effective.
Eligible Foreign Securityholder	a Foreign Securityholder in relation to whom AusNet Services has determined that it is lawful and not unduly onerous for the relevant Foreign Securityholder to receive NewCo Shares under the Proposal.
Eligible Securityholder	> each Securityholder recorded on the Register on the Record Date who is not a Foreign Securityholder > each Eligible Foreign Securityholder recorded on the Register on the Record Date, and > the Sale Nominee (in respect of AusNet Services Stapled Securities held by Ineligible Foreign Securityholders on the Record Date).
FIRB	Foreign Investment Review Board.
First Court Hearing	the hearing of applications made to the Court for orders under section 411(1) of the Corporations Act convening the Scheme Meetings and for judicial advice in relation to the convening of the meeting of members of AusNet Services Trust to approve the AusNet Services Trust Constitution Amendments.
Foreign Securityholder	a Securityholder: a) who is (or who is acting on behalf of) a citizen or resident of a jurisdiction other than Australia and its external territories, or b) whose address shown in the Register is a place outside Australia and its external territories (or who is acting on behalf of such a person).
General Meetings	the extraordinary general meetings of AusNet Services Distribution Shareholders, AusNet Services Transmission Shareholders and AusNet Services Trust Unit Holders held concurrently, the notice for which is set out at Annexure G.
General Meetings Proxy Form	the green proxy form for the General Meetings which accompanies this Securityholder Booklet.
General Meetings Resolutions	the resolutions to approve the Proposal as set out in Annexure G, to be considered by AusNet Services Securityholders at the General Meetings.
ICT	information and communication technology.
IFRS	International Financial Reporting Standards.
Implementation Date	19 June 2015, or such other date as is determined in accordance with the Implementation Deed.
Implementation Deed	the Implementation Deed dated 14 April 2015 between AusNet Services Transmission, AusNet Services Distribution, AusNet Services Trustee and NewCo, as described in section 7.2.
Independent Expert	Loneragan Edwards
Independent Expert's Report	the report of the Independent Expert, set out at Annexure A.
Ineligible Foreign Securityholder	a Foreign Securityholder who is not an Eligible Foreign Securityholder. In relation to an Ineligible Foreign Securityholder, this reference only applies to that number of its AusNet Services Stapled Securities in respect of which AusNet Services has determined it is ineligible to receive NewCo Shares.
Investigating Accountant	KPMG Transaction Services, a division of KPMG Financial Advisory Services (Australia) Pty Ltd (ABN 43 007 363 215) (AFSL No. 246901).

Term	Meaning
Investigating Accountant's Report	the report of the Investigating Accountant, as set out in Annexure B.
Listing Rules	the listing rules of ASX and any other rules of ASX which are applicable to any of AusNet Services, subject to any waiver or exemption granted to AusNet Services from compliance with those rules.
Loneragan Edwards	Loneragan Edwards & Associates Limited (ABN 53 095 445 560) (AFSL No. 246532).
Meetings	the Scheme Meetings and the General Meetings.
National Electricity Law	the National Electricity Law set out in the schedule to the <i>National Electricity (South Australia) Act 1996</i> (SA) as applied in New South Wales, South Australia, Victoria, Queensland, the Australian Capital Territory and Tasmania (respectively).
National Electricity Rules	the rules of that name made pursuant to the National Electricity Law.
National Energy Retail Law	means National Energy Retail Law set out in the schedule to the <i>National Energy Retail Law (South Australia) Act 2011</i> (SA) as applied in New South Wales, South Australia, Queensland, Tasmania and the Australian Capital Territory (respectively).
National Gas Law	the National Gas Law set out in the schedule to the <i>National Gas (South Australia) Act 2008</i> (SA) as applied in New South Wales, South Australia, Victoria, Queensland, Tasmania and the Australian Capital Territory (respectively).
National Gas Rules	the rules of that name made pursuant to the National Gas Law.
NewCo	AusNet Services Ltd (ABN 45 603 317 559).
NewCo Constitution	the constitution of NewCo.
NewCo Deed Poll	deed poll under which NewCo covenants in favour of each Eligible Securityholder and each Ineligible Foreign Securityholder to perform acts attributed to it under the Schemes.
NewCo Directors	the directors of NewCo.
NewCo Share	a fully paid ordinary share in NewCo.
NewCo Shareholder	a person registered as the holder of a NewCo Share, including any person jointly registered.
Notice of General Meetings	the notice of meetings set out in Annexure G.
Notice of Scheme Meetings	the notice of meetings set out in Annexure F.
Participate	to receive NewCo Shares under the Proposal.
Pro Forma Historical Information	the pro forma historical financial information contained in section 3.
Proposal	the arrangement described in this Securityholder Booklet by which AusNet Services is restructuring and simplifying its existing structure.
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading (as amended).
Proxy Form	the Scheme Meetings Proxy Form and the General Meetings Proxy Forms (as the context requires).
Qualified Investor	is as defined in article 2.1 of the Prospectus Directive.
RAB	Regulatory Asset Base.
Record Date	7.00pm on Thursday, 11 June 2015 or such other time as is determined in accordance with the Implementation Deed.
Register	the register of AusNet Services Securityholders.
Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277).
Resolutions	the Scheme Resolutions and the General Meetings Resolutions.
Sale Facility	the facility under which AusNet Services Stapled Securities held by Ineligible Foreign Securityholders are transferred to the Sale Nominee and NewCo Shares are sold, as described in sections 6.3 and 7.4.
Sale Nominee	UBS AG, Australia Branch (ABN 47 088 129 613).
SCER	the Standing Council on Energy and Resources, a standing council of, the Council of Australian Governments (COAG).
Schemes	the Company Schemes and the Trust Scheme.
Scheme Meetings	the meetings of AusNet Services Distribution Shareholders in relation to the AusNet Services Distribution Scheme and of AusNet Services Transmission Shareholders in relation to the AusNet Services Transmission Scheme convened by order of the Court pursuant to section 411(1) of the Corporations Act, and includes any adjournment of those meetings, the notice for which is set out at Annexure F.
Scheme Meetings Proxy Form	the blue proxy form for the Scheme Meetings which accompanies this Securityholder Booklet.
Scheme Resolutions	the resolutions to approve the Company Schemes, to be considered by AusNet Services Securityholders at the Scheme Meetings.
Second Court Hearing	the hearing of applications made to the Court for orders under section 411(4)(b) of the Corporations Act approving each of the Company Schemes and for judicial advice in relation to the Trust Scheme.
Securityholder or AusNet Services Securityholder	a person who is registered in the Register as the holder of AusNet Services Stapled Securities or as the holder of NewCo Shares, as the case may be.
Securityholder Booklet	this document dated 22 April 2015, which includes the notices of meetings, explanatory statement and accompanying materials in connection with the Proposal to be provided to Securityholders.

Term	Meaning
Select Solutions	a division of AusNet Services that provides specialised utility related solutions, in particular asset intelligence and metering to the essential infrastructure sector.
SGX-ST	Singapore Exchange Securities Trading Limited.
Singapore Power	Singapore Power International Pte Ltd.
Singapore Tax Letter	the Singaporean taxation letter from Deloitte & Touche LLP as set out in section 5.
Stapling Deed	the stapling deed between AusNet Services Trustee, AusNet Services Transmission and AusNet Services Distribution dated 19 October 2005.
State Grid	State Grid International Australia Development Company Limited, a company incorporated in Hong Kong Special Administrative Region of the People's Republic of China.
Trust Scheme	the arrangement under which NewCo acquires all of the AusNet Services Trust Units as facilitated by the AusNet Services Trust Constitution Amendments.
WACC	weighted average cost of capital.

Corporate directory

AusNet Services

AusNet Services (Distribution) Ltd
AusNet Services (Transmission) Ltd
AusNet Services (RE) Ltd as responsible entity
of AusNet Services Finance Trust
AusNet Services Ltd
Level 31, 2 Southbank Boulevard
Southbank VIC 3006

Independent Expert

Loneragan Edwards & Associates Limited
Level 7, 64 Castlereagh Street
Sydney NSW 2000

Investigating Accountant

KPMG Transaction Services
a division of KPMG Financial Advisory
Services (Australia) Pty Ltd
147 Collins Street
Melbourne VIC 3000

Australian legal adviser

King & Wood Mallesons
Level 61, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Australian tax adviser

Deloitte Lawyers Pty Ltd
550 Bourke Street
Melbourne VIC 3000

Singapore tax adviser

Deloitte & Touche LLP
6 Shenton Way
OUE Downtown 2, #32-00
Singapore 068809

Registry

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067

AusNet Services Securityholder Information Line

1300 723 186 (within Australia) or on
+61 3 9415 4275 (outside Australia)

AusNet Services website

www.ausnetservices.com.au





AusNet Services (Transmission) Ltd ABN 48 116 124 362
AusNet Services (Distribution) Ltd ABN 37 108 788 245
AusNet Services (RE) Ltd ABN 46 109 977 371 AFSL No. 294117 as
responsible entity of AusNet Services Finance Trust ARSN 116 783 914

MR JOHN SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your vote:

 **Online:**
www.investorvote.com.au

 **By Mail:**
Computershare Investor Services Pty Limited
GPO Box 242
Melbourne Victoria 3001 Australia
(a return address envelope is enclosed)

 **In Person:**
Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067
Australia

 Alternatively you can fax your form to
Computershare Investor Services Pty Limited
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:

(within Australia) 1300 723 186
(outside Australia) +61 3 9415 4275

Scheme Meetings - Proxy Form



Vote and view the Securityholder Booklet online

- Go to www.investorvote.com.au or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number: 999999

SRN/HIN: I9999999999 PIN: 99999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.



 **For your vote to be effective it must be received by 10:00am (Melbourne time) Wednesday, 27 May 2015**

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite the item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on the item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the Scheme Meetings and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of AusNet Services.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the power of attorney with the Registry, please attach a certified photocopy of the power of attorney to this Proxy Form when you return it.

Companies: Where the company has a sole director who is also the sole company secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001 (Cth)) does not have a company secretary, a sole director can also sign alone. Otherwise this form must be signed by a director jointly with either another director or a company secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Scheme Meetings

Bring this Proxy Form to assist registration. If a representative of a corporate securityholder or proxy is to attend the Scheme Meetings you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from the Registry or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for AusNet Services, please write them on a separate sheet of paper and return with this Proxy Form.

**GO ONLINE TO VOTE,
or turn over to complete this Proxy Form** ➔

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030



Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I N D

Scheme Meetings - Proxy Form

Please mark



to indicate your directions

STEP 1

Appoint a proxy to vote on Your Behalf

XX

I/We being a member/s of AusNet Services hereby appoint



the Chairman
of the Scheme OR
Meetings



PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Scheme Meetings. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Scheme Meetings, as my/our proxy to act generally at the Scheme Meetings on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Scheme Meetings of AusNet Services to be held at Meeting Room 220, Melbourne Convention & Exhibition Centre, 2 Clarendon Street, South Wharf on Friday, 29 May 2015 from 9:30am (Melbourne time) and at any adjournment or postponement of the Scheme Meetings.

STEP 2

Items of Business



PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

AusNet Services Transmission Company Scheme Resolution

For

Against

Abstain

Resolution 1 "That, pursuant to, and in accordance with section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between AusNet Services (Transmission) Ltd and the holders of its ordinary shares as contained in and more precisely described in the Securityholder Booklet of which the notice convening this meeting forms part is approved (with or without modification as approved by the Supreme Court of Victoria)."

☐☐☐

AusNet Services Distribution Company Scheme Resolution

Resolution 2 "That, pursuant to, and in accordance with section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between AusNet Services (Distribution) Ltd and the holders of its ordinary shares as contained in and more precisely described in the Securityholder Booklet of which the notice convening this meeting forms part is approved (with or without modification as approved by the Supreme Court of Victoria)."

☐☐☐

If you have provided your Tax File Number (TFN) to AusNet Services then, if the Proposal is approved, no action is required by you for AusNet Services to provide your TFN to AusNet Services Ltd. However, if you do not wish for your TFN to be provided by AusNet Services, please contact us on 1300 723 186 (within Australia) or +61 3 9415 4275 (outside Australia) to arrange to provide written confirmation of that direction. Please note that if you provide this direction, your TFN will not be provided to AusNet Services Ltd and you may be subject to withholding tax being deducted from future distributions at the highest marginal rate. See section 7.14 in the Securityholder Booklet dated 22 April 2015.

The Chairman of the Scheme Meetings intends to vote undirected proxies in favour of the resolutions. In exceptional circumstances, the Chairman of the Scheme Meetings may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

SIGN

Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole director and sole company secretary

Securityholder 2

Director

Securityholder 3

Director/company secretary

Contact
Name

Contact
Daytime
Telephone

Date / /

AST

193745A

Computershare +

193745_01PRXA



AusNet Services (Transmission) Ltd ABN 48 116 124 362
AusNet Services (Distribution) Ltd ABN 37 108 788 245
AusNet Services (RE) Ltd ABN 46 109 977 371 AFSL No. 294117 as
responsible entity of AusNet Services Finance Trust ARSN 116 783 914

MR JOHN SAMPLE
FLAT 123
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THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

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www.investorvote.com.au

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GPO Box 242
Melbourne Victoria 3001 Australia
(a return address envelope is enclosed)

 **In Person:**
Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067
Australia

 Alternatively you can fax your form to
Computershare Investor Services Pty Limited
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:

(within Australia) 1300 723 186
(outside Australia) +61 3 9415 4275

General Meetings - Proxy Form



Vote online

- Go to www.investorvote.com.au or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number: 999999

SRN/HIN: I9999999999 PIN: 99999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.



 **For your vote to be effective it must be received by 10:00am (Melbourne time) Wednesday, 27 May 2015**

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite the item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on the item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the General Meetings and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of AusNet Services.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the power of attorney with the Registry, please attach a certified photocopy of the power of attorney to this Proxy Form when you return it.

Companies: Where the company has a sole director who is also the sole company secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001 (Cth)) does not have a company secretary, a sole director can also sign alone. Otherwise this form must be signed by a director jointly with either another director or a company secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the General Meetings

Bring this Proxy Form to assist registration. If a representative of a corporate securityholder or proxy is to attend the General Meetings you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from the Registry or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for AusNet Services, please write them on a separate sheet of paper and return with this Proxy Form.

**GO ONLINE TO VOTE,
or turn over to complete this Proxy Form** ➔

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030



Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I N D

General Meetings - Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a proxy to vote on Your Behalf

XX

I/We being a member/s of AusNet Services hereby appoint

☐ the Chairman
of the General Meetings **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the General Meetings. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the General Meetings, as my/our proxy to act generally at the General Meetings on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the General Meetings of AusNet Services to be held at Meeting Room 220, Melbourne Convention & Exhibition Centre, 2 Clarendon Street, South Wharf on Friday, 29 May 2015 at 10:00am (Melbourne time) (or as soon thereafter as the Scheme Meetings have concluded) and at any adjournment or postponement of the General Meetings.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain
Resolution 1 Amendments to AusNet Services Trust Constitution	☐	☐	☐
Resolution 2 Destapling of AusNet Services Stapled Securities	☐	☐	☐
Resolution 3 Acquisition of AusNet Services Trust Units	☐	☐	☐

If you have provided your Tax File Number (TFN) to AusNet Services then, if the Proposal is approved, no action is required by you for AusNet Services to provide your TFN to AusNet Services Ltd. However, if you do not wish for your TFN to be provided by AusNet Services, please contact us on 1300 723 186 (within Australia) or +61 3 9415 4275 (outside Australia) to arrange to provide written confirmation of that direction. Please note that if you provide this direction, your TFN will not be provided to AusNet Services Ltd and you may be subject to withholding tax being deducted from future distributions at the highest marginal rate. See section 7.14 in the Securityholder Booklet dated 22 April 2015.

The Chairman of the General Meetings intends to vote undirected proxies in favour of the resolutions. In exceptional circumstances, the Chairman of the General Meetings may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole director and sole company secretary

Securityholder 2

Director

Securityholder 3

Director/company secretary

Contact
Name

Contact
Daytime
Telephone

Date / /

AST

1 9 3 7 4 5 B

Computershare +

...

CDP Voting Instruction Form for CDP Account Holders

MEETINGS – FRIDAY 29 MAY 2015

Please read the notes overleaf before completing and signing this CDP Voting Instruction Form. A copy of the Notice of Scheme Meetings and Notice of General Meetings is enclosed. Terms used in this CDP Voting Instruction Form for CDP Account Holders are defined in the Glossary contained in the Securityholder Booklet, unless otherwise indicated.

To: **AusNet Services**
c/o The Central Depository (Pte) Limited
Robinson Road Post Office
P.O. Box 1597
Singapore 903147

I/We

- (1) request you to appoint the Chairman of the Scheme Meetings as my/our proxy to attend and vote for me/us on my/our behalf at the Scheme Meetings of AusNet Services Distribution and AusNet Services Transmission to be held at Meeting Room 220, Melbourne Convention & Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia on Friday, 29 May from 9.30am (Melbourne time) and at any adjournment of the Scheme Meetings;
- (2) request you to appoint the Chairman of the General Meetings as my/our proxy to attend and vote for me/us on my/our behalf at the General Meetings of AusNet Services to be held at Meeting Room 220, Melbourne Convention & Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria, Australia on Friday, 29 May 2015 at 10.00am (Melbourne time) (or as soon thereafter as the Scheme Meetings have concluded or been adjourned) and at any adjournment of the General Meetings; and
- (3) direct that my/our proxy vote as indicated:

BUSINESS – SCHEME MEETINGS

	For	Against	Abstain ¹
1 AusNet Services Transmission Company Scheme Resolution – AusNet Services Transmission only			
2 AusNet Services Distribution Company Scheme Resolution – AusNet Services Distribution only			
	Number of AusNet Services Stapled Securities to which this instruction relates		
	Securities Account Number to which this instruction relates		

¹ If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a poll.

BUSINESS – GENERAL MEETINGS

	For	Against	Abstain ¹
1 Amendments to the AusNet Services Trust Constitution – AusNet Services Trust only			
2 Destapling of AusNet Services Stapled Securities – AusNet Services Distribution, AusNet Services Transmission and AusNet Services Trust			
3 Acquisition of AusNet Services Trust Units - AusNet Services Trust only			
	Number of AusNet Services Stapled Securities to which this instruction relates		
	Securities Account Number to which this instruction relates		

¹If you mark the Abstain box for a particular item, you are directing your proxy [not](#) to vote on your behalf on a poll.

TO BE COMPLETED IF YOU WISH TO GIVE VOTING INSTRUCTIONS:

For Individuals:

Signature of CDP Account Holder Signature of CDP Account Holder

Dated this _____ day of _____ 2015

For Corporations:

Signature of Director(s)/Secretary Signature of Director(s)/Secretary Common Seal

Dated this _____ day of _____ 2015

.

NOTES

1. You may attend (in person) the Meetings on 29 May 2015, provided that you have notified AusNet Services in writing of your proposed attendance by no later than 27 May 2015 at 10.00 am (Melbourne time) and provided AusNet Services with your name, address and details of your AusNet Services Stapled Security holding as evidence that your AusNet Services Stapled Securities are deposited with CDP at that time. Such written notification should be addressed to the Company Secretary, AusNet Services, Level 31, 2 Southbank Boulevard, Southbank, Victoria 3006 Australia or by facsimile to +61 3 9695 6307. If you attend the Meetings, you have the same right to speak at the Meetings as a Securityholder. However, you do not have any right to vote, be counted in a quorum, or enjoy any other rights of the kind typically enjoyed by Securityholders.
2. Your AusNet Services Stapled Securities are registered with CDP. As CDP is not allowed under the constitutions of AusNet Services to appoint more than 2 proxies, you are not able to attend and vote or appoint your own proxies to attend the Meetings, and can only request CDP to appoint the Chairman of the Meetings as your proxy to attend and vote on your behalf in accordance with the voting instructions herein. CDP will not appoint a proxy other than the Chairman of the Meetings to attend and vote in accordance with the voting instructions herein.
3. You must return this CDP Voting Instruction Form for CDP Account Holders, duly completed, to AusNet Services c/o The Central Depository (Pte) Limited, Robinson Road Post Office P.O. Box 1597 Singapore 903147 by 5.00pm (Singapore time) on Wednesday, 20 May 2015 (the **"Receipt Date"**).
4. You should complete each box for the resolutions set out in the "Business" section of this form, including the number of AusNet Services Stapled Securities to be voted "for" or "against" or "abstain". The total number of AusNet Services Stapled Securities represented should not exceed your total AusNet Services Stapled Security holding.
5. If CDP, on behalf of AusNet Services, does not receive your specific instructions by the Receipt Date, it will not vote or take any action with respect to your AusNet Services Stapled Securities at the Meetings.
6. You should indicate your Securities Account Number to which the number of AusNet Services Stapled Securities to which this instruction relates, in the box provided. If the Securities Account Number is not provided, this form will be deemed to be incomplete and AusNet Services and CDP are entitled (but not obliged) to disregard your voting instruction.
7. If you wish to give voting instructions on your AusNet Services Stapled Securities, this form must be signed by you or your attorney duly authorised in writing or, if you are a corporation, executed under your common seal or under the hand of your attorney duly authorised in writing. In the case of joint holders, all joint holders must sign this form. The Power of Attorney or other authority appointing the attorney or a notarially/duly certified copy of that Power of Attorney or other authority must be attached to this form if it is signed by an attorney.
8. If, as at the Receipt Date, your total AusNet Services Stapled Security holding exceeds the total number of AusNet Services Stapled Securities to which any voting instruction relates, CDP will forward your voting instructions only in respect of the AusNet Services Stapled Securities in respect of which any voting instruction relates.

If, as at the Receipt Date, your total AusNet Services Stapled Security holding is less than the total number of AusNet Services Stapled Securities to which any voting instruction relates, CDP will forward your voting instructions only in respect of your total AusNet Services Stapled Security holding as at the Receipt Date, provided that any instruction which requires CDP to split the AusNet Services Stapled Securities between votes "for" or "against" or "abstain" in respect of any resolution set out in the "Business" section of this form shall be invalid. For example, if on the Receipt Date, your total AusNet Services Stapled Security holding is 10 AusNet Services Stapled Securities but your voting instruction relates to 20 AusNet Services Stapled Securities, CDP will forward the voting instructions in respect of 10 AusNet Services Stapled Securities if the votes are either wholly for or wholly against or wholly abstaining in respect of a resolution set out in the "Business" section of this form. If you have split your AusNet Services Stapled Securities into votes for and against the resolution, CDP will not be able to allocate the AusNet Services Stapled Securities amongst the split votes and will accordingly treat the voting instruction as invalid.