

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON IN THE UNITED STATES OR ADDRESS IN THE UNITED STATES.

Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the offering circular attached to this electronic submission (the “**Offering Circular**”), and you are advised to read this disclaimer page carefully before reading, accessing or making any other use of the Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information as a result of such access. You acknowledge that you will not forward this electronic submission or the attached Offering Circular to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. NEITHER THE SECURITIES NOR THE GUARANTEE HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING CIRCULAR AND ITS CONTENTS ARE CONFIDENTIAL AND MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS PROHIBITED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: You have been sent this Offering Circular on the basis that you have confirmed to the relevant Dealers (as defined in the Dealer Agreement), being the senders of the attached that: (i) you have understood and agree to the terms set out herein, (ii) you consent to the delivery of this Offering Circular by electronic transmission, (iii) you are not a U.S. person (within the meaning of Regulation S under the Securities Act 1933), and are not acting for the account or benefit of any U.S. person, and that the electronic mail address you have given to us is not located in the United States, its territories and possessions, (iv) you will not transmit the attached Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the relevant Dealers, and (v) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the securities.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriter or any affiliate of the relevant Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the relevant Dealers or such affiliate on behalf of AusNet Services Holdings Pty Ltd (the “**Issuer**”) in such jurisdiction.

This Offering Circular has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently, none of the Issuer or the relevant Dealers or any person who controls them or any of their directors, officers, employees or agents, or any affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between this Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Issuer, the Arranger or the relevant Dealers.



AusNet Services Holdings Pty Ltd
(incorporated with limited liability in Australia)

U.S.\$5,000,000,000

Medium Term Note Programme

Guaranteed by

AusNet Asset Services Pty Ltd
AusNet Electricity Services Pty Ltd
AusNet Gas Services Pty Ltd
AusNet Transmission Group Pty Ltd

(each incorporated with limited liability in Australia)

On 28 October 2004, AusNet Services Holdings Pty Ltd (the “**Issuer**”) established a U.S.\$1,500,000,000 Medium Term Note Programme (the “**Programme**”) and issued an offering circular on that date describing the Programme. This Offering Circular supersedes any previous Offering Circular and any supplement thereto. Any Notes (as defined below) issued under this Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This does not affect any Notes issued prior to the date of this Offering Circular.

Under this Programme, the Issuer may from time to time issue medium term notes (the “**Notes**”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The payment of all amounts due in respect of any Notes will be guaranteed pursuant to the terms of the Trust Deed (as defined in the Terms and Conditions of the Notes) (the “**Guarantee**”) by AusNet Asset Services Pty Ltd, AusNet Electricity Services Pty Ltd, AusNet Gas Services Pty Ltd and AusNet Transmission Group Pty Ltd (the “**Guarantors**”). The Issuer may from time to time and in accordance with the terms of the Trust Deed and the Terms and Conditions of the Notes, appoint or procure the appointment of, any Subsidiary (as defined in the Terms and Conditions of the Notes) of AusNet Services (as defined in the Terms and Conditions of the Notes) which is not a Guarantor as a Guarantor, or release Guarantors.

The aggregate principal amount of Notes outstanding at any time will not exceed U.S.\$5,000,000,000 (or the equivalent in other currencies), unless such amount is otherwise increased pursuant to the terms of the Programme.

Listed or unlisted series of Notes may be issued pursuant to the Programme. The applicable Pricing Supplement (as defined herein) in respect of any issue of Notes will specify whether or not such Notes will be listed on any other stock exchange. Notes of each series (as described in “**Summary of the Programme**”) will be issued in bearer form and will be represented by interests in a temporary global Note or by a permanent global Note, in bearer form (each a “**Temporary Global Note**” and a “**Permanent Global Note**”, respectively and each, a “**Global Note**”), without interest coupons, which may be deposited on or about the relevant date of issue (the “**Issue Date**”) with a common depository on behalf of Euroclear Bank SA/NV (“**Euroclear**”), and Clearstream Banking S.A. (“**Clearstream, Luxembourg**”) (the “**Common Depository**”) or with any other agreed clearance system. Interests in a Temporary Global Note will be exchangeable, in whole or in part, for interests in a Permanent Global Note from 40 days after the later of the commencement of the offering and the Issue Date (the “**Exchange Date**”), upon certification as to non-U.S. beneficial ownership. Individual definitive Notes (“**Definitive Notes**”) will only be available in certain limited circumstances as described herein.

The Notes and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) or with any securities regulatory authority of any state or other jurisdiction of the United States and the Notes may be subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold, or delivered within the United States or to, or for the account or benefit of, U.S. persons (see “**Subscription and Sale**” herein).

IMPORTANT – EEA RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II Product Governance/Target Market – The Pricing Supplement in respect of any Notes may include a legend entitled “MiFID II Product Governance/Target Market” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

Notes to be issued under the Programme will be rated or unrated. Any information provided in connection with a credit rating, including the credit rating itself, is not a recommendation to buy, sell or hold such Notes and is subject to variation, suspension or withdrawal at any time by the rating agency.

Arrangers

Citigroup

Morgan Stanley

Dealers

BNP PARIBAS

Citigroup

HSBC

Morgan Stanley

The date of this Offering Circular is 6 February 2020.

The Issuer and each of the Guarantors, having made all reasonable enquiries, confirm that this Offering Circular contains or incorporates by reference all information which is material in the context of the issuance and offering of Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading.

Neither the Dealers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer or the Guarantors in connection with the Programme. No Dealer or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer or the Guarantors in connection with the Programme.

This Offering Circular is to be read in conjunction with all documents which are incorporated herein by reference (see “Documents Incorporated by Reference”).

No person is or has been authorised by the Issuer, the Guarantors, any of the Dealers, the Arrangers or the Trustee to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantors, any of the Dealers, the Arrangers or the Trustee.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Guarantors, any of the Dealers, the Arrangers or the Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme should purchase any Notes. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes is financial product advice. Such information does not take into account the investment objectives, financial situation or particular needs of any investor contemplating purchasing any Notes. Each investor contemplating purchasing any Notes should (a) make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the Guarantors, (b) read this Offering Circular and any other information supplied in connection with the Programme or any issue of Notes and consider whether such an investment is appropriate in light of the investor’s particular investment needs, objectives and financial circumstances (including financial and taxation issues) and (c) seek advice from its financial or other professional advisers where appropriate. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or the Guarantors, any of the Dealers, the Arrangers or the Trustee to any person to subscribe for or to purchase any Notes.

This Offering Circular may contain forward-looking statements which are identified by such words as “may”, “could”, “anticipates”, “believes”, “estimates”, “expects”, “intends”, “plans”, and other similar words, that involve risks and uncertainties. Such statements are subject to significant assumptions, risks and uncertainties many of which are outside the control of the Issuer and the Guarantors and are not reliably predictable, which could cause actual results or outcomes to differ materially from those described in this Offering Circular. Further, past performance is not a reliable indicator of future performance and no warranty, representation or undertaking is given regarding the future performance of the Issuer or any of the Guarantors.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer and/or the Guarantors is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. Further, none of the Issuer or any of the Guarantors are obliged to, nor do they intend to, update, amend or supplement any such information including forward-looking statements after the date hereof or indicated therein (as applicable). The Dealers, the Arrangers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantors during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors

should review, inter alia, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933 as amended (the “**Securities Act**”) or with any securities regulatory authority of any state or other jurisdiction of the United States and the Notes are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the benefit of, U.S. persons (as defined in the Internal Revenue Code of 1986, as amended and regulations thereunder). Notes may be offered and sold outside the United States in reliance on Regulation S under the Securities Act (see “Subscription and Sale”).

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Guarantors, the Dealers, the Arrangers and the Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantors, the Dealers, the Arrangers or the Trustee which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the United Kingdom, the European Economic Area, Singapore, Hong Kong, Japan and Australia, see “Subscription and Sale”.

All references in this document to “**Australian dollars**” and “**A\$**” refer to the lawful currency of Australia, all references in this document to “**NZ\$**” are to the lawful currency of New Zealand, all references in this document to “**Pounds sterling**” and “**£**” are to the lawful currency of the United Kingdom, all references in this document to “**Singapore dollars**” and “**S\$**” are to the lawful currency of Singapore, all references in this document to “**U.S. dollars**” and “**U.S.\$**” refer to the lawful currency of the United States of America and all references in this document to “**Euro**” and “**€**” refer to the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty on the Functioning of the European Union, as amended.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions (in each case outside Australia and not on any market in Australia) with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date of which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than at the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

IMPORTANT – EEA RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA

has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

SINGAPORE SECURITIES AND FUTURES ACT PRODUCT CLASSIFICATION – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), unless otherwise stated in the relevant Pricing Supplement in respect of any offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are “prescribed capital markets products” (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

DOCUMENTS INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement, the most recently published audited annual consolidated accounts of AusNet Services Limited (ABN 43 603 317 559) and each of its subsidiaries from time to time, and interim accounts (if any) (whether audited or unaudited) published subsequently to such annual accounts, from time to time. Such documents shall be incorporated in and form part of this Offering Circular, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular may be obtained without charge from the registered office of the Issuer and the website of www.ausnetservices.com.au.

Website addresses in this Offering Circular are, except as otherwise stated herein, included for reference only and the contents of any such websites are not incorporated by reference into, and do not form part of, this Offering Circular.

Capitalised expressions and acronyms herein have the meanings given in the Glossary or the Terms and Conditions of the Notes, as applicable.

TABLE OF CONTENTS

SUMMARY OF THE PROGRAMME	1
INVESTMENT CONSIDERATIONS	7
TERMS AND CONDITIONS OF THE NOTES	23
FORM OF THE NOTES	53
USE OF PROCEEDS	55
CAPITALISATION AND INDEBTEDNESS	56
SELECTED FINANCIAL INFORMATION AND OPERATING DATA	58
INDUSTRY/REGULATORY OVERVIEW	60
BUSINESS OF THE AUSNET SERVICES GROUP	75
BOARD AND MANAGEMENT	105
TAX CONSIDERATIONS	113
SUBSCRIPTION AND SALE	120
INDEPENDENT AUDITORS	126
GENERAL INFORMATION	127
FORM OF PRICING SUPPLEMENT	129
GLOSSARY	137
INDEX TO FINANCIAL STATEMENTS	143

SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference.

Capitalised expressions and acronyms herein have the meanings given in the Glossary or the Terms and Conditions of the Notes, as applicable.

Issuer	AusNet Services Holdings Pty Ltd (ABN 97 086 006 859)
Guarantors	AusNet Asset Services Pty Ltd (ABN 27 075 826 881) AusNet Electricity Services Pty Ltd (ABN 91 064 651 118) AusNet Gas Services Pty Ltd (ABN 43 086 015 036) AusNet Transmission Group Pty Ltd (ABN 78 079 798 173) (together with any Subsidiary of AusNet Services which is appointed from time to time, as an additional or replacement Guarantor in accordance with the terms of the Trust Deed (as defined below) and the Terms and Conditions of the Notes, the “Guarantors” and each a “Guarantor”). See description of “Guarantee” below and Condition 4.
Description	Medium Term Note Programme.
Size	Up to U.S.\$5,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Arrangers	Citigroup Global Markets Singapore Pte. Ltd. and Morgan Stanley Asia (Singapore) Pte.
Permanent Dealers	BNP Paribas, Citigroup Global Markets Limited, Citigroup Global Markets Singapore Pte. Ltd., HSBC Bank plc, Morgan Stanley Asia (Singapore) Pte. and Morgan Stanley & Co. International plc. The Issuer may from time to time terminate the appointment of any Dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “Dealers” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee	Citicorp Trustee Company Limited.
Principal Paying Agent	Citibank, N.A.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other

Notes of that Series. Each Series may be issued in tranches (each a “**Tranche**”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a pricing supplement to this Offering Circular (a “**Pricing Supplement**”).

Issue Price Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.

Form of the Notes See “Form of the Notes” below.

Status of the Notes The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Guarantee..... The due payment of principal and interest (if any) in respect of any Notes and all other moneys payable by the Issuer under or pursuant to the Trust Deed is guaranteed on a joint and several basis by the Guarantors pursuant to the terms of the Trust Deed.

The Issuer shall ensure that at all times the Total Assets of the Guarantors are not less than 90% of the Total AusNet Services Group Assets. The Issuer may from time to time and in accordance with the terms of the Trust Deed, appoint, or procure to be appointed, any Subsidiary of AusNet Services which is not a Guarantor as a Guarantor in order to comply with this requirement.

Upon receipt by the Trustee of a certificate of two Directors of the Issuer that (a) a Subsidiary of AusNet Services (not being an Excluded Subsidiary) is to be released as a Guarantor, and (b) the release of such Guarantor would not cause the Total Assets of the remaining Guarantors to be less than 90% of the Total AusNet Services Group Assets, the Trustee shall (by the execution of appropriate release documentation to that effect) forthwith release such Guarantor from such Guarantee and the Trustee shall have no responsibility or liability to the Noteholders, Receiptholders, Couponholders or any person whatsoever in respect of such release. All Guarantors shall be deemed to be aware of and be bound by such provisions and any such release or permission. Remaining Guarantors after any release shall continue to be bound by the terms of the Guarantee notwithstanding any release of any other Guarantor.

The obligations of each Guarantor under the Guarantee will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of that Guarantor and (subject as aforesaid and save for certain obligations required to be preferred by law) will rank equally

with all other unsecured obligations (other than subordinated obligations, if any) of that Guarantor, from time to time outstanding.

Fixed Rate Notes	Fixed Rate Notes will bear interest at a fixed rate per annum at the rate specified in the applicable Pricing Supplement. Such interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Pricing Supplement) and on redemption, will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions; as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series; or (ii) by reference to LIBOR or EURIBOR (or such other benchmark as may be specified in the applicable Pricing Supplement) as adjusted for any applicable margin. Interest Periods will be specified in the relevant Pricing Supplement.
Zero Coupon Notes	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest other than in the case of late payment (as indicated in the applicable Pricing Supplement).
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be agreed by the Issuer and the relevant Dealer and specified in the applicable Pricing Supplement.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be agreed by the Issuer and the relevant Dealer and specified in the applicable Pricing Supplement.
Interest Periods and Interest Rates	The length of the Interest Periods for any Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the applicable Pricing Supplement.

Denominations	Notes will be issued in the denominations indicated in the relevant Pricing Supplement (the “Specified Denomination(s)”), except that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. Notes denominated in Singapore dollars will have a minimum denomination of S\$250,000. Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies as set out in the applicable Pricing Supplement) (together with any integral multiples thereafter). Although there is no minimum denomination for Notes denominated in Australian dollars, the minimum subscription price will be A\$500,000 (disregarding moneys lent by the offeror or its associates) unless the offer otherwise does not require disclosure to investors in accordance with Parts 6D.2 or 7.9 of the Corporations Act 2001 of Australia.
Clearing Systems	Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Principal Paying Agent, the Trustee and the relevant Dealer as specified in the applicable Pricing Supplement.
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note representing Notes may be deposited with the Common Depositary. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Principal Paying Agent, the Trustee and the relevant Dealer.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Guarantors and the relevant Dealers and specified in the applicable Pricing Supplement (each a “Specified Currency”).
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer and the relevant Dealer.
Redemption by Instalments	The applicable Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Optional Redemption	The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their

	stated maturity at the option of the Issuer (Call Option) and/or Noteholders (Put Option), and if so the terms applicable to such redemption.
Early Redemption	Except as provided in “Optional Redemption” above, Notes may be redeemable at the option of the Issuer prior to maturity only for tax reasons. See “Terms and Conditions of the Notes—Redemption and Purchase”.
Other Notes	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.
Negative Pledge.....	See “Terms and Conditions of the Notes—Negative Pledge”.
Cross Default	See “Terms and Conditions of the Notes—Events of Default”.
Listing of the Notes.....	Listed or unlisted series of Notes may be issued pursuant to the Programme. The Notes may be listed on such stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each series of Notes. The Pricing Supplement relating to each series of Notes will state whether or not the Notes of such series will be listed on any stock exchange(s) and, if so, on which stock exchange(s) the Notes are to be listed.
Taxation	All payments of principal and interest by each of the Issuer and the Guarantors will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments, or governmental charges of whatever nature imposed or levied by or on behalf of Australia and any jurisdiction of incorporation of a Guarantor or any authority thereof or therein having power to tax or any other jurisdiction or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is required by law. If the Issuer is at any time required by law to deduct or withhold an amount in respect of withholding taxes, the Issuer must, subject to certain exceptions, pay such additional amounts as may be necessary in order to ensure that the net amounts received by the holders of the Notes after such deduction or withholding are equal to the respective amounts which would have been received had no such deduction or withholding been required.
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law.
Selling Restrictions	United States, United Kingdom, Singapore, Hong Kong, Japan, Australia, New Zealand and European Economic Area. See “Subscription and Sale”. The Issuer and each of the Guarantors is Category 1 for the purposes of Regulation S under the United States Securities Act of 1933, as amended.

The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “**D Rules**”) unless (i) the relevant Pricing Supplement states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “**C Rules**”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” for U.S. federal income tax purposes, which circumstances will be referred to in the applicable Pricing Supplement as a transaction to which TEFRA is not applicable.

Legal Entity Identifier

The Legal Entity Identifier of AusNet Services Holdings Pty Ltd is TTMIG9TE1S0X3ZPDHD61.

INVESTMENT CONSIDERATIONS

The Issuer and each Guarantor believe that the following factors may affect their ability to fulfil their obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantors are in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer and each Guarantor believe that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer or any Guarantor to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and neither the Issuer nor any of the Guarantors represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

Capitalised expressions and acronyms herein have the meanings given in the Glossary or the Terms and Conditions of the Notes, as applicable.

Risks Related to AusNet Services Group's Business

Regulatory risks

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

The energy industry in Australia is highly regulated. The regulated component of the AusNet Services Group's revenues (87% of the AusNet Services Group's revenues for the half year ended 30 September 2019 were regulated) will be subject to periodic pricing resets by the Australian Energy Regulator ("AER"), where revenue or prices will be determined for each of the networks for the specified regulatory period. The AusNet Services Group 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 five years. The upcoming regulatory reset dates (where the next regulatory period commences) for the AusNet Services Group's electricity distribution network, electricity transmission network and gas distribution network are 1 July 2021, 1 April 2022 and 1 July 2023¹, 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 the AusNet Services Group's costs, this may adversely affect the financial performance and position of the AusNet Services Group.

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

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

The AusNet Services Group 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 the AusNet Services Group's 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 (for example, a change in law, natural disaster or changes in occupational health and safety or environmental obligations) and the change in costs is required to

¹ For electricity distribution and gas, the Victorian Government has notified AusNet Services of its intention to introduce legislation in early 2020 to extend the current regulatory control period for electricity distribution and the current access arrangement period for gas by six months. The previous regulatory period for electricity distribution and gas commenced on 1 January 2016 and 1 January 2018, respectively.

satisfy a materiality threshold. It is also possible to re-open a regulatory determination, but this can only occur where the determination is affected by a material error or deficiency. As such, the AusNet Services Group faces exposure to changes in its costs which could adversely affect its financial performance and position.

Changes to National Electricity Rules and National Gas Rules and Key AER Reviews

The AEMC completed a rules change process in respect of the National Electricity Rules (“NER”) and National Gas Rules (“NGR”) provisions on weighted average cost of capital (“WACC”) and other aspects of the economic regulatory framework for the electricity sector in 2012. 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 in making regulatory decisions. Operating expenditure is particularly subject to benchmarking comparisons to set efficient levels going forward.

In exercising any *ex post* efficiency review, the regulator will have regard to an overall objective that only capital expenditure that is efficient should form part of the regulated asset base.

Following the large number of appeals of AER decisions brought by networks in 2015 and 2016, the limited merits review regime (established in 2013 by the COAG Energy Council) was formally abolished on 16 October 2017. This was due to concerns that the regime was not operating in the long term interests of customers. Network businesses no longer have the right to appeal AER decisions, which could adversely affect the financial performance of the AusNet Services Group.

The ability to seek judicial review of regulatory determinations by the Federal Court of Australia remains.

The most recent Rate of Return review was finalised in December 2018. The resulting Rate of Return Instrument contained further reductions in regulated returns. Specifically, the assumed non-diversifiable risk (beta) parameter underpinning the cost of equity was reduced and the assumed value of imputation credits resulted in a reduction in the tax allowance. In addition, there was a small reduction in the debt allowance to be fully realised over 10 years.

The Council of Australian Governments (“COAG”) Energy Council agreed to amend the National Electricity Law and the National Gas Law to make this Instrument binding for the rate of return and the value of imputation credits (gamma).

The 2018 Rate of Return Instrument will apply to the AusNet Services Group’s regulated networks from the following dates. The Victorian electricity distribution network from 1 January 2021², the electricity transmission determination applicable from 1 April 2022 and the gas distribution network applicable from 1 January 2022.³ The amendments to the National Electricity Law and the National Gas Law require the AER to review and publish a new Instrument every four years.

² Under the transitional arrangements associated with the Victorian Government’s policy change to extend the current regulatory control period by six months for electricity distribution. The 2018 Rate of Return Instrument will be applied to set electricity distribution revenues for the transitional period 1 January to 30 June 2021, and the five year regulatory period beginning 1 July 2021.

³ The Victorian Government has also advised its intent to introduce legislation to amend the National Gas (Victoria) Act 2008 (“NGVA”) to defer the start of the next access arrangement period for gas distribution networks until 1 July 2022. This will specify that the 2018 Rate of Return Instrument will apply for the six month extension period, unless the AER makes the 2022 Rate of Return Instrument prior to 20 December 2022, in which case the 2022 Instrument will apply for the six month extension period. The 2022 Instrument will apply to the subsequent five year access arrangement period commencing 1 July 2023.

This timing assumes that the current gas distribution access arrangement period is extended by six months, consistent with the Victorian Government’s intent.

It is possible that the 2022 Rate of Return Instrument will result in a further reduction in regulated returns which may negatively affect the AusNet Services Group's financial performance and position.

The AER has also recently concluded a productivity review for electricity distribution networks. This concludes that a reduction of 0.5% will be applied to operating expenditure in the AER's determination for electricity distribution networks. This is expected to reflect productivity improvements that will be made over the determination period. This will apply to AusNet Services' distribution network for the first time from 1 July 2021.

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

The AusNet Services Group requires licences and accreditations in order to operate its distribution and transmission businesses. The ESC can revoke the AusNet Services Group's licences if the relevant licensee 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.

Changes in law, government policy and regulatory action could adversely affect the AusNet Services Group

Changes in the structure and regulation of the energy industry in Australia could have a materially adverse effect on the AusNet Services Group and its business. The AusNet Services Group 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. The AusNet Services Group's business is also subject to general legal regulation including in relation to tax, 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 those government policies, laws or regulations, the introduction of new legal or regulatory regimes (for example, in relation to climate change) or changes to the way in which those laws, regulations or policies are interpreted and applied by relevant regulators, including the Australian Taxation Office ("ATO") may have a material adverse effect on AusNet Services Group's financial position, operational costs, earnings, cash flows and its business. Such changes may have retrospective effect and they may include changes that are under consideration at the time of this Offering Circular but which 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.

The AusNet Services Group 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 the AusNet Services Group's networks. The AusNet Services Group has approved Electricity Safety Management Schemes ("ESMSs") for its electricity transmission and distribution networks, and a safety case for the gas distribution network, which govern, where applicable, its compliance with these standards. The ESMSs and gas safety case do not prevent claims against the AusNet Services Group. Failure to comply with operation and maintenance standards could lead to safety issues, service disruptions and adverse publicity and could otherwise result in a materially adverse effect on the AusNet Services Group's business.

Amendments to the Electricity Safety (Bushfire Mitigation) Regulations 2013 (Vic) were introduced on 1 May 2016. The objective of the regulations is to reduce the risk of bushfires initiated by electricity distribution networks.

The amendments to the regulations mandate the following network programmes:

- installation of Automatic Circuit Reclosers ("ACRs") on all Single Wire Earth Return ("SWER") networks;
- progressive replacement of bare powerlines in highest risk areas with insulated cables; and
- installation of Rapid Earth Fault Current Limiter ("REFCL") technology.

The AusNet Services Group completed the installation of SWER ACRs on all SWER networks in December 2015.

AusNet Services Group will be required to seek approval through the AER for funding the replacement of bare powerlines, as they become due for replacement in high risk areas, with insulated cables.

AusNet Services lodged contingent project applications with the AER for all three tranches of the REFCL programme. The AER made its final determination on the revenue allowed for the delivery of these tranches as follows:

- Tranche 1 – application made to the AER on 31 March 2017, AER’s final determination made on 21 August 2017.
- Tranche 2 – application made to the AER on 20 April 2018, AER’s final determination made on 31 August 2018.
- Tranche 3 – application made to the AER on 20 April 2018, AER’s final determination made on 31 August 2018.

With respect to the REFCL programme, the proposed regulations prescribe timeframes, as well as performance specifications, for implementation of the new technology.

Funding for the implementation of REFCLs is required through application to the AER. With nine of 22 REFCL stations in service for the 2019-20 summer, completion of the programme is forecast by the prescribed date, 1 May 2023.

In May 2017, the Electricity Safety Act 1998 (Vic) was amended to include financial penalties for failure to comply with the regulatory requirements for implementation of the three programmes listed above. AusNet Services is required to report monthly to ESV to demonstrate progress. In the event that ESV is not satisfied with the Group’s progress, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services. ESV has sole discretion over whether any postponement is granted, and for how long. ESV has granted variations in accordance with AusNet Services’ applications.

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 the AusNet Services Group’s current and historical businesses. For example, the AusNet Services Group’s 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 the AusNet Services Group’s reputation may be damaged. The AusNet Services Group is currently funding the clean-up of three former gas works sites. Based on the AusNet Services Group’s estimates as at 30 September 2019, a provision of A\$37.2 million has been made for these remediation works.

The AusNet Services Group 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 and/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 the AusNet Services Group, and future changes in environmental laws and regulations could occur. The occurrence of any of these events could materially adversely affect the AusNet Services Group’s results of operations and financial condition.

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

Some of the AusNet Services Group’s 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, the AusNet Services Group 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 the AusNet Services Group may not be able to reach agreement with contract counterparties as to appropriate amendments, which could adversely affect the AusNet Services Group’s

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 the AusNet Services Group.

Operational and Legal Risks

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

The AusNet Services Group's 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, physical and cyber 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 the AusNet Services Group's 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 the AusNet Services Group, and this could harm the business and reputation of the AusNet Services Group. The AusNet Services Group's emergency response, crisis management and business continuity management system, known as the "Strategic Plan for Integrated Response and Contingency System", is the approved methodology to guide response and recovery activities. The system may limit the damage and protect against further damage, both physical and reputational, to the AusNet Services Group's business and operations.

The AusNet Services Group 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 programme. Only some such incidents are covered by plant warranties and in some instances these warranties may only be partial. Additionally, incidents in the AusNet Services Group's zone substations and terminal stations have property insurance cover to insure against the consequences of failure, but incidents outside the boundaries of the AusNet Services Group's zone substations and terminal stations are self-insured. Any forced replacement programme, particularly if not covered by warranties, could be costly and adversely affect the AusNet Services Group's financial performance and position.

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

Although the AusNet Services Group maintains insurance that it believes is appropriate to protect against major operating and other risks, not all risks are insured or insurable. In particular, the AusNet Services Group does not carry insurance for damage to its towers, poles, wires or pipelines. Due to changeable insurance market conditions, the AusNet Services Group 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 the AusNet Services Group 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.

The AusNet Services Group's gas network revenues are exposed to variations in demand for gas and other factors affecting customer usage

The majority of AusNet Services Group's gas distribution network revenues are derived from the transported volume of gas metered at the connections to the distribution networks, with the balance, which amounted to 41% in 2018/19, recovered through fixed charges. The volume of gas used is subject to seasonal fluctuations and to a range of variables, including economic conditions, population growth, government policy, weather, alternative energy sources, technology, energy saving behaviour and availability of adequate supplies of gas. Economic recession and customer relocations out of a distribution area would also have a direct adverse effect on the AusNet Services Group's revenues. Similarly, warmer than normal winters can negatively affect the volume of gas that moves through its network, which may reduce the portion of revenue which is exposed to volume movements. There could also be a potential negative reaction by consumers to higher prices resulting in reduced demand, which may negatively impact revenues.

The AusNet Services Group is exposed to a variety of legal risks

The AusNet Services Group 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.

The AusNet Services Group is exposed to changes in law and regulatory action

The AusNet Services Group is also exposed to 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 retrospective effect and could have a materially adverse effect on the AusNet Services Group's financial position, earnings, cash flows and ability to pay, or frank, distributions. Changes to laws or regulations may include changes that are under consideration at the time of this Offering Circular but have not been implemented.

Regulators (including tax authorities) may take action against the AusNet Services Group. This may have an adverse effect on the AusNet Services Group's 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 the AusNet Services Group's financial position

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

Some of the AusNet Services Group's operations are hazardous and could expose the AusNet Services Group's 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 energy transmission and distribution networks. There are risks caused by circumstances beyond the AusNet Services Group's control, as well as the inherently dangerous nature of maintenance and construction work involving electricity and gas transmission and distribution facilities.

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

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

Unforeseen capital expenditure may adversely affect the AusNet Services Group's financial position

The AusNet Services Group's transmission and distribution businesses are subject to certain conditions requiring the AusNet Services Group to complete necessary capital works. Due to unforeseen developments, the AusNet Services Group may be required to spend a materially higher amount on capital expenditure than is currently envisioned. While the regulatory regime provides that the AusNet Services Group may be compensated for

regulatory capital expenditures incurred, funding unforeseen or unbudgeted capital expenditure requirements may adversely impact the AusNet Services Group's financial performance and position. While cost pass-through protections exist, there is a risk the AusNet Services Group will be required to fund additional capital expenditure programmes that may result from the unplanned capital expenditure, resulting in delayed or incomplete cost recovery. In addition, under the ex post review provisions, the AER may not approve regulatory compensation for an overspend where:

- aggregate capital expenditure over a five year period exceeds the regulatory benchmark; and
- the overspend is deemed inefficient by the AER.

Mondo projects also have an element of capital expenditure delivery risk. These are traditionally managed through schedule management, commercial risk pricing and downstream contractor commercial terms.

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 the operational costs of responding to storm damage. In addition, regulatory developments responding to the threats posed by climate change may require increased expenditure and the AusNet Services Group may be adversely affected if the AER does not recognise these increased costs.

The AusNet Services Group continues to report its emissions under the NGER framework. Corporations meeting or exceeding the thresholds are required to lodge their reports on emissions by 31 October each year. The AusNet Services Group 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 2019 deadline.

Since 1 July 2016, a safeguard mechanism has applied to AusNet Gas Services. Under the safeguard mechanism, a baseline is established. If net emissions exceed the baseline, AusNet Gas Services must surrender Australian Carbon Credit Units which either have to be generated (as a result of emission reduction initiatives) or purchased via the secondary market.

Electric and Magnetic Fields ("EMF") may have adverse effects on human health

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 these studies have established adverse effects, but there still remains substantial public and scientific debate.

The AusNet Services Group's distribution, sub-transmission and transmission lines EMF are within the health guidelines on EMF set by the NHMRC (now withdrawn) in December 1989. ARPANSA has recommended international guidelines published by ICNIRP as international best practice to be considered in Australia. In light of this recommendation, AusNet Services Group has adopted these guidelines for new developments. It is anticipated that EMFs are within these ICNIRP guidelines, however, ARPANSA/ICNIRP guidelines could require the AusNet Services Group to re-design and re-construct some installations to ensure that EMF are within acceptable limits, which could adversely affect the AusNet Services Group's financial performance and position. Adverse findings relating to EMF may also lead to litigation against the AusNet Services Group which could expose the AusNet Services Group to material damages claims. The AusNet Services Group participates in the national and international standard development processes and monitors the relevant scientific research including work on standard compliant assessment.

The AusNet Services Group's business and future revenues may be negatively impacted by increased reliance on technology

The continual drive to reduce carbon emissions, meet the need for increasing 'peak demand' and network reliability, achieve greater operating efficiency, and to keep pace with emerging digital disruptors has resulted in a greater role for technology in the management and operations of energy networks.

Examples of this include "smart network" technologies, mini or community grids, distributed energy resources, automation and artificial intelligence, and the next generation of telecommunications networks. These technologies

enable AusNet Services to improve network reliability, while meeting community desire for a cost efficient and sustainable network (which increasingly incorporates renewable and distributed energy generation). The convergence of information technologies (“IT”) and operational technologies (“OT”) is driving an ever-greater role for technology in the day-to-day management of energy networks and is also disrupting traditional network management paradigms and practices. Cyber security has also emerged as a key risk for all critical energy infrastructure operators.

Failure to embrace emerging technologies, or invest in the right technologies, may negatively impact the AusNet Services Group’s revenues or require unforeseen and inefficient capital investment to replace obsolete or ineffective systems. As with all new technology solutions, there are risks associated with solution design, implementation, budgeting, planning and forecasting for future maintenance, upgrades and support. Uncontrolled realisation of such risks could adversely impact the effectiveness and sustainability of such solutions and overall business continuity, effectiveness and efficiency. To mitigate these risks, the AusNet Services Group has established centralised technology architecture, design, delivery and governance capabilities to ensure technology needs are fulfilled through a business-aligned approach. Appropriate governance is applied to all technology investments and risks are managed through the AusNet Services Group’s risk management frameworks. AusNet Services has also established cyber security assurance capabilities to address emerging cyber security threats.

The AusNet Services Group’s financial performance and position could also be adversely affected by the requirements for greater technology investment if the AER does not recognise and allow for increasing reliance on technology. AusNet Services Group proactively engages with regulators to ensure that the need for, and drivers of, technology investment are understood and justified.

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

Incentive mechanisms applicable to the AusNet Services Group’s electricity and gas networks, which are regulated by the AER or AEMO, reward or penalise the AusNet Services Group 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 the AusNet Services Group is denied awards, or attracts penalties, under any applicable incentive mechanism, its revenue may be adversely affected.

Management and Personnel Risks

Failure to retain and attract skilled professional and technical employees could have an adverse effect on the AusNet Services Group’s operations

The AusNet Services Group’s success is dependent on its ability to attract, develop, retain and engage a diverse range of employees. Competition for skilled employees in Australia is relatively strong, especially in the energy industry, with engineering, technology and commercial roles in demand due to the volume of large-scale infrastructure projects in the market. With the recent adjustment in AusNet Services delivery model, the Talent profile has changed; the requirement for trade and technical roles has reduced while the demand for specialised commercial roles has increased. The inability to attract, develop, retain and engage employees could adversely affect the AusNet Services Group’s financial performance and position.

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

As at 30 November 2019, 312 members of the AusNet Services Group’s workforce are covered by Enterprise Agreements and/or Modern Awards. Historically, the operations of certain AusNet Services Group’s subsidiaries have from time to time experienced work stoppages and other forms of industrial action during renegotiation periods of the terms of the Enterprise Agreements. It is possible that AusNet Services Group’s operations may be affected by industrial action in the future, where any industrial action, work stoppages or other labour-related developments may adversely affect the AusNet Services Group’s financial performance and position. At the date of this Offering Circular, AusNet Services was not subject to any protected industrial action. While industrial action was taken during the latest renegotiation of the 2013-2016 ETU Agreement, causing some services impact

to customers, the re-negotiations were managed effectively by the AusNet Services Group to ensure no material negative effect on overall business performance. The current ETU Agreement expires in March 2021. All other Enterprise Agreements have been successfully renegotiated without recourse to industrial action, including the ASU/APESMA agreement which expired on 1 December 2019.

Financial Risks

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

As of 30 September 2019, the AusNet Services Group's long-term senior debt totalled A\$6.1 billion, long-term subordinated debt totalled A\$0.8 billion and debt maturing during the 12-month period ending 30 September 2020 was A\$1.4 billion consisting of certain maturing long term debt. The degree to which the AusNet Services Group may be leveraged in the future could affect the ability of the AusNet Services Group to service debt and other obligations, to pay dividends to shareholders, to make capital investments, to take advantage of certain business opportunities, to respond to competitive pressures or to obtain additional financing. The AusNet Services Group may incur substantial additional debt and other obligations such as leases, letters of credit and other instruments.

In addition, the AusNet Services Group relies on access to financial markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows. The AusNet Services Group's access to financial markets could be adversely impacted by various factors, such as a material adverse change in the AusNet Services Group 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 the AusNet Services Group's 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 the AusNet Services Group could increase the AusNet Services Group's borrowing costs and reduce its sources of liquidity and the AusNet Services Group's ability to make payments in relation to subordinated debt may be limited in certain circumstances

If a rating agency were to downgrade the long-term ratings of the AusNet Services Group, the AusNet Services Group's borrowing costs may increase and its potential sources of liquidity could likely decrease. A downgrade in the AusNet Services Group's credit ratings below certain thresholds could trigger a requirement for the AusNet Services Group to comply with additional financial covenants. Under certain circumstances, a change of control may trigger a review, or termination, event in respect of certain of the AusNet Services Group's borrowing or hedging arrangements. In addition, if the AusNet Services Group experiences an event of default or a potential event of default under certain of its borrowing arrangements, it is not permitted to make a payment in respect of subordinated debt while the event subsists.

Restrictions in relation to AusNet Services' ability to raise equity could impact on AusNet Services Group's credit ratings and, in turn, could increase its borrowing costs and reduce its sources of liquidity

AusNet Services' constitution includes a restriction on the power to issue shares and other equity interests ("**Constitution Restriction**"). AusNet Services is not permitted to issue shares or other equity interests without the prior approval of shareholders of AusNet Services. Shareholder approval for this purpose can apply for a maximum period of 18 months.

At the annual general meeting of AusNet Services held on 18 July 2019, the shareholders of AusNet Services passed resolutions to, among other things, permit AusNet Services:

- to issue shares pursuant to a dividend reinvestment plan ("**DRP**") or any underwriting thereof ("**DRP Approval**");
- to make or grant an offer, agreement or option which would or might require shares to be issued to a maximum of 10% of issued share capital, where the offer to issue shares is made pursuant to a pro rata issue and any related underwriting and/or short fall arrangement ("**Pro-Rata Issue Approval**"),

at any time within 18 months of the date of the resolutions (subject to any earlier revocations or variations at a subsequent general meeting of AusNet Services).

Actual issues of shares or other equity interests remain subject to the discretion of the Directors of AusNet Services and applicable laws and listing rules of the ASX.

Despite the DRP Approval and the Pro-Rata Issue Approval, there is a risk that the credit ratings of AusNet Services Group could be adversely impacted if, in the future, AusNet Services was restricted or prevented from raising equity as a result of the Constitution Restriction or otherwise. An adverse impact on the credit ratings of AusNet Services Group could increase borrowing costs of the AusNet Services Group and reduce its sources of liquidity.

The AusNet Services Group is exposed to interest rate risk

As at 30 September 2019, the AusNet Services Group hedged 94.0% of the interest rate exposure on its debt relating to each of its businesses (electricity distribution, gas distribution, electricity transmission and Mondo) for the duration of the relevant regulatory reset periods or contract period in the case of Mondo. The AusNet Services Group 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. The AusNet Services Group remains exposed to credit margins on debt that is refinanced or new debt that is raised which does not coincide with the averaging period agreed with the regulator.

The AusNet Services Group is exposed to counterparty credit risk

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

Valuation of derivatives may result in further deterioration of reserves

The AusNet Services Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. It is the AusNet Services Group's policy to ensure, wherever possible, that all hedging activities comply with the hedge accounting requirements of AASB 9. 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 9 such derivatives must be classified as "fair value through profit and loss". 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 2019, hedge reserves were negative A\$540.0 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.

The AusNet Services Group is obligated to contribute to employee pension funds

The AusNet Services Group makes contributions to an Equisuper defined benefit superannuation plan (previously the AusNet Services Group made contributions to two Equisuper funds that were merged on 31 December 2019) that provides 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 defined benefit sections of the Equisuper plan is closed to new members. An independent actuary performs actuarial valuations of the fund semi-annually on 31 March and 30 September each year and additionally on other ad hoc dates as deemed appropriate.

The plan has a net surplus recognised on the balance sheet, as calculated in accordance with accounting standard AASB 119 Employee Benefits, of A\$18.4 million as at 30 September 2019.

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. The AusNet Services Group makes contributions to the defined benefit fund 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 five years. Adverse movements in the market values of the plans' assets or actual obligations to be paid may result in the AusNet Services Group being required to make additional contributions. AusNet Services has been on a contribution holiday since 1 July 2018 as a result of the vested benefits ratio being above the targeted vested benefits ratio.

Key estimates and judgements - Income taxes

The tax expense and deferred tax balances in the accounts assume certain tax outcomes and values of assets in relation to the application of tax legislation as it applies to AusNet Services Ltd. Judgement is required in determining the timing of deductibility of expenditure, which impacts the amount of income tax payable and whether deferred tax balances are to be recognised in the statement of financial position. Changes in tax legislation or the interpretation of tax laws by tax authorities may affect the amount of provision for income taxes and deferred tax balances recognised.

As a large business taxpayer, AusNet Services is subject to annual compliance reviews conducted by the ATO and continues to support a cooperative compliance relationship with the ATO.

In December 2018, the ATO commenced an audit in relation to the profile of capital allowances (tax depreciation profile and entitlements) following the corporate restructure in June 2015. There is ongoing work and a review in respect of the audit matters and there are a range of possible outcomes. A tax risk provision of A\$11.0 million was raised in March 2019, based on a probability-weighted range of possible outcomes. AusNet Services continues to engage cooperatively with the ATO, with the intention of resolving these issues without requiring this provision.

Risks relating to the Guarantors

Risks relating to the Guarantors' abilities to fulfil their respective obligations under the Guarantee

It is possible that the Guarantors, individually or collectively, may not have the financial resources or liquidity to pay the amounts required under the Guarantee.

Certain risks described above with respect to the AusNet Services Group's business, including the financial risks, will apply to and affect the Guarantors as they are Subsidiaries of the AusNet Services Group and form part of the AusNet Services Group.

Risks relating to a change to Guarantors and Subsidiaries of the AusNet Services Group

Potential investors should be aware that members of the Group forming the Guarantor group may change in accordance with the Trust Deed. Members of the Group (except Excluded Subsidiaries) may be added as a Guarantor to ensure that at all times the Total Assets of the Guarantors are in aggregate not less than 90% of the Total Group Assets. The Issuer may also require the Trustee to release a Guarantor if, and providing that after the release of that Guarantor, the Total Assets of the remaining Guarantors will be in aggregate not less than 90% of the Total Group Assets.

Risks Related to the Notes

Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;
- (d) understand thoroughly the terms of the relevant Notes and be familiar with any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone instruments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of the Noteholders, agree to certain modifications of, or waivers of, certain Terms and Conditions of the Notes, in the circumstances described in the Terms and Conditions of the Notes.

Change of law

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

Notes where denominations involve integral multiples

In the case of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to Notes which are linked to "benchmarks"

The London Interbank Offered Rate ("LIBOR"), the Euro Interbank Offered Rate ("EURIBOR") and other interest rate or other types of rates and indices which are deemed to be benchmarks are the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective whilst others are yet to be implemented. These reforms may cause such benchmarks to perform differently than in the past, or disappear entirely, or have other consequences which cannot be predicted.

As an example of such benchmark reforms, on 27 July 2017, the UK Financial Conduct Authority (the “FCA”) announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 and, on 12 July 2018, the FCA announced that the LIBOR benchmark may cease to be a regulated benchmark under the Benchmarks Regulation (EU) 2016/1011. Such announcements indicate that the continuation of LIBOR on the current basis (or at all) cannot and will not be guaranteed after 2021.

At this time, it is not possible to predict the effect of any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom or elsewhere. Uncertainty as to the nature of such alternative reference rates or other reforms may adversely affect the trading market for LIBOR-linked securities. The potential elimination of benchmarks, such as LIBOR, the establishment of alternative reference rates or changes in the manner of administration of a benchmark could also require adjustments to the terms of benchmark-linked securities and may result in other consequences, such as interest payments that are lower than, or that do not otherwise correlate over time with, the payments that would have been made on those securities if the relevant benchmark was available in its current form.

The elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Conditions (as further described in Condition 6(b)(viii) (*Benchmark Discontinuation*)), or result in adverse consequences to Holders of any Notes linked to such benchmark (including Floating Rate Notes whose interest rates are linked to LIBOR, EURIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities (including the Notes) based on the same benchmark.

The “*Terms and Conditions of the Notes*” provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR, (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, including the possibility that the rate of interest could be set by reference to a successor rate or an alternative rate and that such successor rate or alternative reference rate may be adjusted (if required) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, although the application of such adjustments to the Notes may not achieve this objective. Any such changes may result in the Notes performing differently (which may include payment of a lower interest rate) than if the original benchmark continued to apply. In certain circumstances the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used.

This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Conditions), the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may be structured in such a way that they have features which contain particular risks for potential investors.

Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Any additional optional redemption right of the Issuer in relation to any Notes will be set out in the applicable Pricing Supplement.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates, interest rates or inflation rates or other factors (each, a “**Relevant Factor**”). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that, with respect to Index Linked Notes and Dual Currency Notes:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) the payment of principal or interest may occur at a different time or in a different currency than expected or not at all;
- (d) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, prospective investors should consult their own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of their particular circumstances.

Partly Paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable Rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market in and the market value of such Notes since the Issuer may be expected to convert

the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and greater price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes and the Guarantor will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the “**Investor's Currency**”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (a) the Investor's Currency-equivalent yield on the Notes, (b) the Investor's Currency equivalent value of the principal payable on the Notes and (c) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and

to what extent (a) Notes are legal investments for it, (b) Notes can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of the Pricing Supplement” for a description of the content of Pricing Supplements which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by AusNet Services Holdings Pty Ltd (the “**Issuer**”) constituted by an Amended and Restated Trust Deed dated 28 January 2014 (such Trust Deed as amended, modified and/or supplemented and/or restated from time to time, including, without limitation, by the first supplemental trust deed dated 6 February 2015, the second supplemental trust deed dated 15 March 2016 and the third supplemental trust deed dated 6 February 2020, the “**Trust Deed**”) and made between the Issuer, AusNet Asset Services Pty Ltd, AusNet Electricity Services Pty Ltd, AusNet Gas Services Pty Ltd and AusNet Transmission Group Pty Ltd (the “**Guarantors**”) and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include any successor trustee) as trustee of the Noteholders (as defined below). These terms and conditions (the “**Terms and Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes, Receipts, Coupons and Talons referred to below.

References herein to:

“**AusNet Services**” means AusNet Services Limited (ABN 43 603 317 559);

“**AusNet Services Group**” means AusNet Services and its Subsidiaries;

“**Corporations Act**” means the Corporations Act 2001 of Australia;

“**Excluded Subsidiary**” means any member of the AusNet Services Group which becomes a member of the AusNet Services Group after the date of the Trust Deed and which, in the Issuer’s reasonable opinion (based on a written legal opinion from the Issuer’s counsel that is addressed and delivered to, inter alia, the Trustee and is in form and substance satisfactory to the Trustee), is prohibited from becoming a Guarantor by the terms of a contractual obligation applying to it at the time it becomes a member of the AusNet Services Group (other than a contractual obligation created in anticipation of such entity becoming a member of the AusNet Services Group), however, where such member of the AusNet Services Group is no longer prohibited from becoming a Guarantor under the Trust Deed by the terms of a contractual obligation, that member of the AusNet Services Group will cease to be an Excluded Subsidiary:

- (a) 30 days after the date of the next annual general meeting of the relevant entity which is the listed parent company of such member of the AusNet Services Group, if the accession of that member of the AusNet Services Group as a Guarantor under the Trust Deed would otherwise contravene financial assistance provisions in Part 2J.3 or related party transactions provisions in Part 2E.1 of the Corporations Act; or
- (b) in other cases, 30 days from the date that the member of the AusNet Services Group is no longer prohibited from becoming a Guarantor;

“**FATCA**” means sections 1471 to 1474 of the United States Internal Revenue Code of 1986 or any consolidation, amendment, re-enactment or replacement of those provisions and including any regulations or official interpretations issued, agreements (including, without limitation, intergovernmental agreements) entered into or non-United States laws enacted with respect thereto;

“**Guarantee**” means the guarantee referred to in Condition 4(a) and more fully set out in the Trust Deed, pursuant to which the Guarantors jointly and severally guarantee to the Trustee and the Noteholders the due and punctual payment of all sums which may be payable in respect of the Notes and under the Trust Deed;

“**Guarantor**” means, at any time and from time to time, each Guarantor and each other Subsidiary of AusNet Services which has become a Guarantor in accordance with Condition 4(c) but does not include any entity which has been released from its obligations as a Guarantor in accordance with Condition 4(d) and “**Guarantors**” shall be construed accordingly;

“**Notes**” shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a “**Global Note**”), units of the lowest Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note;

“**Subsidiary**” of an entity means:

- (a) another entity which is a subsidiary of the first within the meaning of part 1.2 division 6 of the Corporations Act; and
- (b) any other entity which is a subsidiary of or otherwise controlled by the first within the meaning of any approved accounting standard;

“**Tax Act**” means the Income Tax Assessment Act 1936 of Australia and where applicable, the Income Tax Assessment Act 1997 of Australia;

“**Total Assets**” means, in relation to any entity, the aggregate of the value of all current and non-current assets on a consolidated basis after eliminating all inter-company transactions; and

“**Total AusNet Services Group Assets**” means the aggregate of the value of all Total Assets of each entity comprising the AusNet Services Group on a consolidated basis minus the aggregate value of the Total Assets of any Excluded Subsidiaries.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement (such Amended and Restated Agency Agreement as further amended, modified and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) dated 28 January 2014 and made between the Issuer, the Guarantors, Citibank, N.A. as issuing and principal paying agent and agent bank (the “**Principal Paying Agent**”, which expression shall include any successor principal paying agent) and the other paying agents appointed pursuant thereto (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agents) and the Trustee.

Interest bearing definitive Notes (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons (“**Coupons**”) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (“**Talons**”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (“**Receipts**”) for the payment of the instalments of principal (other than the final instalment) attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the “**applicable Pricing Supplement**” are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to “**Noteholders**” or “**holders**” in relation to any Notes shall mean (in the case of Notes) the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided

below. Any reference herein to “**Receipholders**” shall mean the holders of the Receipts and any reference herein to “**Couponholders**” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “**Tranche**” means Notes which are identical in all respects (including as to listing) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office of each of the Principal Paying Agent and the other Paying Agents (such Agents being together referred to as the “**Agents**”) and at the registered office for the time being of the Trustee (being at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB). Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receipholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement, and the applicable Pricing Supplement which are applicable to them.

Words and expressions defined in the Trust Deed or used in the applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1 FORM, DENOMINATION AND TITLE

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s) specified in the applicable Pricing Supplement provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under Regulation 2017/1129 including any relevant implementing measure in such Member State (the “**Prospectus Regulation**”), the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

The Notes may be Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes, Index Linked Interest Notes or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

The Notes may be Index Linked Redemption Notes, Instalment Notes, Dual Currency Notes, Partly Paid Notes or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer, the Guarantors, the Trustee and any Agent will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes, and, except as ordered by a court of competent jurisdiction or as required by applicable law, the Issuer, the Guarantors, the Trustee and any Agent shall not be affected by any notice to the contrary, but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph. All payments

made to any such holder or person shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge liability for the moneys payable upon such Notes, Receipts or Coupons, if applicable.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking S.A. (“**Clearstream, Luxembourg**”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantors, the Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to, the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Guarantors, the Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the Trust Deed and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and/or Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Guarantors, the Principal Paying Agent and the Trustee (whether specified in the applicable Pricing Supplement or otherwise).

2 STATUS OF THE NOTES AND THE GUARANTEES

(a) Status of the Notes

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank pari passu without any preference among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

(b) Status of the Guarantees

The obligations of each Guarantor under the Guarantee are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of that Guarantor and (subject as aforesaid and save for certain obligations required to be preferred by law) rank equally with all other unsecured obligations (other than subordinated obligations, if any) of that Guarantor, from time to time outstanding.

3 NEGATIVE PLEDGE

Save as provided herein and in paragraph (ii) below, so long as any Note remains outstanding (as defined in the Trust Deed) the Issuer and the Guarantors will not create or permit to exist any Lien or allow one to exist on the whole or any part of its present or future property to secure any Capital Markets Indebtedness or any guarantee (or other assurance against financial loss) in respect of any Capital Markets Indebtedness without the approval of an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders unless, before or at the same time, the Issuer’s obligations under the Notes either:

- (i) are secured equally and rateably; or
- (ii) have the benefit of any other Lien approved by an Extraordinary Resolution of Noteholders.

For the purposes of these Terms and Conditions:

“**Capital Markets Indebtedness**” means any indebtedness for money borrowed or interest thereon in the form of bonds, notes, debentures, loan stock or other similar securities that are, or are capable of being, quoted, listed or ordinarily dealt with in any stock exchange, over-the-counter or other securities market,

having an original maturity of more than 365 days from its date of issue, or any guarantee or indemnity in respect of Capital Markets Indebtedness; and

“**Lien**” means any mortgage, charge, pledge, lien or other encumbrance or security interest.

4 GUARANTEES, JOINING AND RELEASING OF GUARANTORS

- (a) The due payment of principal and interest (if any) in respect of the Notes and all other moneys payable by the Issuer under or pursuant to the Trust Deed is guaranteed, on a joint and several basis, by the Guarantors in the Trust Deed.
- (b) Subject to paragraphs (c) and (d) below, the Issuer shall ensure that at all times the Total Assets of the Guarantors are not less than 90 per cent. of the Total AusNet Services Group Assets.
- (c) The Issuer may from time to time and in accordance with the terms of the Trust Deed appoint or procure to be appointed any Subsidiary of AusNet Services (not being an Excluded Subsidiary), which is not a Guarantor, as a Guarantor in order to comply with paragraph (b) above. The Issuer shall ensure that any Subsidiary of AusNet Services (not being an Excluded Subsidiary) that is required to become a Guarantor in order to comply with paragraph (b) above, within 45 days after the Issuer becomes aware of the requirement, or such greater time as is reasonably required (and in any case within 30 days after the date of the next annual general meeting of the relevant entity which is the listed parent company of such Subsidiary of AusNet Services if securityholder approval is required) to comply with the requirements of Part 2E.1 (related party transactions) and/or Part 2J.3 (financial assistance) of the Corporations Act (where applicable) executes and delivers to the Trustee a supplemental deed in or substantially in the form scheduled to the Trust Deed (or in such other form as may be approved by the Trustee) whereby such Subsidiary of AusNet Services agrees to be bound as a Guarantor under the Trust Deed, all as more fully set out in the Trust Deed.
- (d) The Issuer may at any time and from time to time deliver to the Trustee a certificate of two Directors of the Issuer (the “**Directors’ Certificate**”) that (i) a Subsidiary of AusNet Services is to be released as a Guarantor, (ii) the release of such Guarantor would not cause the Total Assets (as at the time of such release) of the remaining Guarantors to be less than 90 per cent. of the Total AusNet Services Group Assets (as at the time of such release). Upon receipt by the Trustee of the Directors’ Certificate, the Trustee shall (by the execution of appropriate release documentation to that effect) forthwith release such Guarantor from such Guarantee and the Trustee shall have no responsibility or liability to the Noteholder, Receiptholder, Couponholder or any person whatsoever in respect of such release. The Issuer may only deliver the Directors’ Certificate and the release will only be effective if, upon releasing the Guarantor from such Guarantee, the Issuer would not be in breach of paragraph (b) above. The Trustee and the Noteholders shall be deemed to be aware of and be bound by, and take their rights subject to, the provisions of this clause and any such release or permission. All Guarantors shall be deemed to be aware of and be bound by the provisions of this clause and any such release or permission. Remaining Guarantors after any release shall continue to be bound by the terms of the Guarantee notwithstanding any release of any other Guarantor.

5 REDENOMINATION

- (a) Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders, the Couponholders or the Trustee, on giving prior notice to the Principal Paying Agent, Euroclear or Clearstream, Luxembourg and the Trustee and at least 30 days’ prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.
- (b) The election will have effect as follows:
 - (i) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate,

provided that, if the Issuer determines, with the agreement of the Principal Paying Agent and the Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders in accordance with Condition 15, the stock exchange (if any) on which the Notes may be listed and the Agents of such deemed amendments;

- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
 - (iii) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the “**Exchange Notice**”) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
 - (iv) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
 - (v) if the Notes are Fixed Rate Notes and the amount of interest payable per Calculation Amount (specified in the applicable Pricing Supplement) in respect of any Note for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, such interest payable shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the applicable Pricing Supplement and the Day Count Fraction (as defined in Condition 6) for the period for which interest is required to be calculated, rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention; and
 - (vi) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest.
- (c) In these Terms and Conditions, the following expressions have the following meanings:
- “**Established Rate**” means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;
- “**euro**” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

“**Redenomination Date**” means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

“**Treaty**” means the Treaty on the Functioning of the European Union, as amended.

6 INTEREST

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from and including the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes (or, if Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount specified in the applicable Pricing Supplement;

in each case multiplying the sum by the applicable Day Count Fraction for the period for which interest is required to be calculated, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises a multiple of the Calculation Amount, the amount of interest payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 6(a):

- (i) if “Actual/Actual ICMA” is specified in the applicable Pricing Supplement:
 - (a) in the case of Notes where the Calculation Period (as defined below) is equal to or shorter than the Determination Period during which it falls, the number of days in such Calculation Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Periods (as specified in the applicable Pricing Supplement) normally ending in any year; or
 - (b) in the case of Notes where the Calculation Period is longer than the Determination Period during which the Calculation Period ends, the sum of:
 - (A) the number of days in such Calculation Period falling in the Determination Period in which the Calculation Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods (as specified in the applicable Pricing Supplement) normally ending in any year; and
 - (B) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y)

the number of Determination Periods (as specified in the applicable Pricing Supplement) normally ending in any year; and

- (ii) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30.

In these Terms and Conditions:

“**Determination Period**” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the Final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);

“**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date; and

“**sub-unit**” means with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) *Interest on Floating Rate Notes and Index Linked Interest Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from and including the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (B) if no express Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an “**Interest Payment Date**”) which falls the number of months or other period specified as the Interest Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

The amount of interest payable shall be determined in accordance with Condition 6(b)(iv) or the applicable Pricing Supplement.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from and including an Interest Payment Date (or the Interest Commencement Date) to but excluding the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Interest Periods are specified in accordance with Condition 6(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Interest Period after the preceding applicable Interest Payment Date; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, “**Business Day**” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Business Centre specified in the applicable Pricing Supplement; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than any Business Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Wellington, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2 which was launched on 19 November 2007) System (the “**TARGET System**”) is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (A), “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions as amended and updated as at the Issue Date of the first Tranche of

the Notes, published by the International Swaps and Derivatives Association, Inc. (the “**ISDA Definitions**”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“**LIBOR**”) or on the Euro-zone inter-bank offered rate (“**EURIBOR**”) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(iii) Minimum and/or Maximum Rate of Interest

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period or a minimum Instalment Amount or a Redemption Amount then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest and any Instalment Amount or Redemption Amount shall be subject to the minimum Instalment Amount or minimum Redemption Amount specified.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period or a maximum Instalment Amount or a Redemption Amount then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest and any Instalment Amount or Redemption Amount shall be subject to the maximum Instalment Amount or maximum Redemption Amount specified.

(iv) *Determination of Rate of Interest and Calculation of Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts*

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will as soon as practicable on each Interest Determination Date, or such other time on such date as the Principal Paying Agent or the Calculation Agent may be required to calculate any rate or amount, determine the Rate of Interest for the relevant Interest Accrual Period, obtain any quotation or make any determination or calculation, determine such rate, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest payable per Calculation Amount for the Floating Rate Notes or Index Linked Interest Notes for any Interest Accrual Period. The amount of such interest payable shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the applicable Pricing Supplement and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated. The resultant figure shall be rounded to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Note in definitive form comprises a multiple of the Calculation Amount, the amount of interest payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest for any Notes for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period (the **“Calculation Period”**)):

- (A) if “Actual/Actual” or “Actual/Actual-ISDA” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (C) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (D) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (E) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30;

- (F) (if “30E/360 (ISDA)” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

In these Terms and Conditions:

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“**Interest Amount**” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified in the applicable Pricing Supplement as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.
- (v) *Notification of Rate of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts*

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Issuer, to the Paying Agents and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vi) *Determination or Calculation by Trustee*

If for any reason the Principal Paying Agent or, as the case may be, the Calculation Agent does not at any time determine the Rate of Interest or calculate any Interest Amount in accordance with sub-paragraph (ii) or (iv), as the case may be, above, the Trustee shall determine the Rate of Interest at such rate plus or minus (as appropriate) the relevant Margin (if any) as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 6(b) but subject always to sub-paragraph (iii) above), it shall deem fair and reasonable in all the circumstances and/or, as the case may be, the Trustee shall calculate the Interest Amount in the manner referred to in sub-paragraph (iv) above and such determination and/or calculation shall be deemed to have been made by the Principal Paying Agent or, as the case may be, the Calculation Agent. In making any determination and/or calculation by the Trustee under this sub-paragraph (vi), the Trustee may conclusively rely upon an opinion of any expert at the sole cost and expense of the Issuer.

(vii) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6(b), whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantors, the Trustee, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders, Receiptholders and

Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantors, the Trustee, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Trustee or the Calculation Agent (as applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(viii) Benchmark Discontinuation

- (A) If a Benchmark Event occurs in relation to the Reference Rate when the Rate of Interest (or any component part thereof) for any Interest Period remains to be determined by reference to such Reference Rate, then the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, or failing which, an Alternative Rate (in accordance with this Condition 6(b)(viii)) and, in either case, an Adjustment Spread, if any (in accordance with Condition 6(b)(viii)(C)) and any Benchmark Amendments (in accordance with Condition 6(b)(viii)(D)).

In making such determination, the Independent Adviser appointed pursuant to this Condition 6(b)(viii) shall act in good faith as an expert and in consultation with the Issuer and the Guarantors. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Guarantors, the Trustee, the Agents or the Noteholders for any determination made by it pursuant to this Condition 6(b)(viii).

If (a) the Issuer is unable to appoint an Independent Adviser or (b) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 6(b)(viii) prior to the relevant Interest Determination Date, the Reference Rate applicable to the immediate following Interest Period shall be the Reference Rate applicable as at the last preceding Interest Determination Date. If there has not been a first Interest Payment Date, the Reference Rate shall be the Reference Rate applicable to the first Interest Period. For the avoidance of doubt, any adjustment pursuant to this final paragraph of this Condition 6(b)(viii)(A) shall apply to the immediately following Interest Period only. Any subsequent Interest Period may be subject to the subsequent operation of this Condition 6(b)(viii).

(B) Successor or Alternative Rate

If the Independent Adviser determines in its discretion that:

- (1) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 6(b)(viii)(C)) subsequently be used in place of the Reference Rate to determine the Rate of Interest for the immediately following Interest Period and all following Interest Periods, subject to the subsequent operation of this Condition 6(b)(viii); or
- (2) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 6(b)(viii)(C)) subsequently be used in place of the Reference Rate to determine the Rate of Interest for the immediately following Interest Period and all following Interest Periods, subject to the subsequent operation of this Condition 6(b)(viii).

(C) Adjustment Spread

If the Independent Adviser (in consultation with the Issuer and the Guarantors) determines in its discretion (a) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (b) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall apply to the Successor Rate or the Alternative Rate (as the case may be).

(D) Benchmark Amendments

If any relevant Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 6(b)(viii) and the Independent Adviser (in consultation with the Issuer and the Guarantors) determines in its discretion (a) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the “**Benchmark Amendments**”) and (b) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 6(b)(viii)(E), without any requirement for the consent or approval of relevant Noteholders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice (and for the avoidance of doubt, the Trustee shall, at the direction and expense of the Issuer and the Guarantors, consent to and effect such consequential amendments to the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 6(b)(viii)).

(E) Notices

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 6(b)(viii) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Agents and, in accordance with Condition 15 (*Notices*), the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two authorised signatories of the Issuer:

- (1) confirming (x) that a Benchmark Event has occurred, (y) the relevant Successor Rate, or, as the case may be, the relevant Alternative Rate and, (z) where applicable, any relevant Adjustment Spread and/or the specific terms of any relevant Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 6(b)(viii); and
- (2) certifying that the relevant Benchmark Amendments (if any) are necessary to ensure the proper operation of such relevant Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

The Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of such Successor Rate or Alternative Rate and (in either case) such Adjustment Spread (if any) and such Benchmark Amendments (if any)) be binding on the Issuer, the Guarantors, the Trustee, the Paying Agent and Transfer Agent, the Calculation Agent, the other Agents and the Noteholders.

As used in this Condition 6(b)(viii):

“**Adjustment Spread**” means either a spread (which may be positive, negative or zero), or the formula or methodology for calculating a spread, in either case, which the Independent Adviser (in consultation with the Issuer and the Guarantors) determines is required to be applied to the relevant Successor Rate or the relevant Alternative Rate (as the case may be) to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (ii) (if no such recommendation has been made, or in the case of an Alternative Rate), the Independent Adviser (in consultation with the Issuer and the Guarantors), determines is customarily applied to the relevant Successor Rate or Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Reference Rate; or
- (iii) (if no such recommendation has been made, or in the case of an Alternative Rate) the Independent Adviser (in consultation with the Issuer and the Guarantors) determines, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or
- (iv) (if the Independent Adviser determines that no such industry standard is recognised or acknowledged) the Independent Adviser (in consultation with the Issuer and the Guarantors) determines to be appropriate.

“Alternative Rate” means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 6(b)(viii)(B) is customary in market usage in the international debt capital markets for the purposes of determining floating rates of interest (or the relevant component part thereof) in the Specified Currency.

“Benchmark Amendments” has the meaning given to it in Condition 6(b)(viii)(D).

“Benchmark Event” means:

- (i) the relevant Reference Rate has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered; or
- (ii) a public statement by the administrator of the relevant Reference Rate that it has ceased, or will, by a specified date within the following six months, cease, publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate); or
- (iii) a public statement by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will, by a specified date within the following six months, be permanently or indefinitely discontinued; or
- (iv) a public statement by the supervisor of the administrator of the relevant Reference Rate that means that such Reference Rate will, by a specified date within the following six months, be prohibited from being used or that its use will be subject to restrictions or adverse consequences, either generally or in respect of the Notes; or
- (v) a public statement by the supervisor of the administrator of the relevant Reference Rate (as applicable) that, in the view of such supervisor, (a) such Reference Rate is no longer representative of an underlying market or (b) the methodology to calculate such Reference Rate has materially changed; or
- (vi) it has or will, by a specified date within the following six months, become unlawful for the Calculation Agent to calculate any payments due to be made to any Noteholder using the relevant Reference Rate (as

applicable) (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable).

“Independent Adviser” means an independent financial institution of international repute or other independent financial adviser experienced in the international capital markets, in each case appointed by the Issuer at its own expense under Condition 6(b)(viii).

“Relevant Nominating Body” means, in respect of a benchmark or screen rate (as applicable):

- (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of
 - (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

“Successor Rate” means a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

(c) *Interest on Dual Currency Notes*

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Pricing Supplement.

(d) *Interest on Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

(f) *Rounding*

All amounts used in or resulting from any calculations referred to in these Conditions will be rounded as described in the applicable Pricing Supplement.

7 PAYMENTS

(a) *Method of Payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Wellington respectively); and

- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment or other laws or regulations to which the Issuer agrees to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements, but without prejudice to the provisions of Condition 9.

(b) *Presentation of Definitive Notes, Receipts and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “**Long Maturity Note**” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Fixed Interest Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from and including the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

(c) *Payments in Respect of Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note in bearer form, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it is presented and such record shall be prima facie evidence that the payment in question has been made.

(d) *General Provisions Applicable to Payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer or, as the case may be, the Guarantors will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Guarantors to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantors, adverse tax consequences to the Issuer or any Guarantor.

(e) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “**Payment Day**” means any day which (subject to Condition 10) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation; and
 - (B) any Financial Centre specified in the applicable Pricing Supplement; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, any Financial Centre specified in the applicable Pricing Supplement and which, if the Specified Currency is

Australian dollars or New Zealand dollars, shall be Sydney and Wellington respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

(f) *Interpretation of Principal and Interest*

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 9 or any undertaking given in addition thereto, or in substitution therefore, pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon, Notes, the Amortised Face Amount (as defined in Condition 8(e)); and
- (vii) any premium and any other amounts which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9 or any undertaking given in addition thereto, or in substitution therefore, pursuant to the Trust Deed.

8 REDEMPTION AND PURCHASE

(a) *Redemption at Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for Tax Reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Principal Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if the Issuer or any Guarantor satisfies the Trustee immediately prior to the giving of such notice that:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 or the relevant Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 9) or any political subdivision of, or any authority in, or of, a Tax Jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer or, as the case may be, the relevant Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the relevant Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer or, as the case may be, two Directors of the relevant

Guarantor stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred.

Notes redeemed pursuant to this Condition 8(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to but excluding the date of redemption.

(c) *Redemption at the Option of the Issuer (Call Option)*

If the Call Option is specified in the applicable Pricing Supplement, the Issuer may, having given:

- (i) not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Principal Paying Agent and the Trustee,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) determined as specified below in this Condition 8(c) or as otherwise determined in the manner specified in the applicable Pricing Supplement.

In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes or represented by a Global Note shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding and Notes outstanding represented by such Global Note, respectively, bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Specified Denomination. No exchange of the relevant Global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

Unless otherwise specified in the applicable Pricing Supplement, the Optional Redemption Amount(s) will be equal to the greater of:

- (i) 100 per cent. of the principal amount of the Notes being redeemed; and
- (ii) the sum of the present values of the remaining scheduled payments of principal and interest (excluding the portion of any such interest accrued to the Optional Redemption Date) on the Notes being redeemed, discounted to the Optional Redemption Date on an annual, a semi-annual or other basis, as specified in the applicable Pricing Supplement (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus the Make-Whole Spread specified in the applicable Pricing Supplement,

plus, in each case, accrued and unpaid interest thereon and any accrued and unpaid additional amounts which may be payable with respect to the Notes under Condition 9 to the Optional Redemption Date.

In this Condition 8(c):

"**Comparable Treasury Issue**" means the US Treasury security selected by the Independent Investment Banker as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes to be redeemed;

“Comparable Treasury Price” means, with respect to any redemption date, (i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such Optional Redemption Date, as set forth in the H. 15 Daily Update of the Federal Reserve Bank or (ii) if such release (or any successor release) is not published or does not contain prices on such Business Day, the Reference Treasury Dealer Quotation actually determined by the Trustee for such Optional Redemption Date;

“H.15(519)” means the weekly statistical release entitled “H.15 (519) Selected Interest Rates,” or any successor publication, published by the Board of Governors of the Federal Reserve System;

“H.15 Daily Update” means the daily update of H.15(519) available through the worldwide website of the Board of Governors of the Federal Reserve System or any successor site or publication;

“Independent Investment Banker” means the Reference Treasury Dealer;

“Reference Treasury Dealer” means Citigroup Global Markets Inc. and its successors; provided, however, that if Citigroup Global Markets Inc. shall cease to be a primary U.S. Government securities dealer in New York City (Primary Treasury Dealer), the Issuer shall substitute therefore another Primary Treasury Dealer;

“Reference Treasury Dealer Quotation” means, with respect to the Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asking prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by the Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such Optional Redemption Date; and

“Treasury Rate” means, with respect to any Optional Redemption Date, the rate per annum equal to the equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Optional Redemption Date.

(d) *Redemption at the Option of the Noteholders (Put Option)*

If the Put Option is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 15 not less than 15 nor more than 30 days’ notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, in whole (but not, in the case of a Note in definitive form, in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to but excluding the Optional Redemption Date.

If this Note is in definitive form, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **“Put Notice”**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition.

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable.

(e) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 11, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or,

if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or

- (iii) in the case of a Zero Coupon Note, at an amount (the “**Amortised Face Amount**”) equal to the sum of:
 - (A) the Reference Price; and
 - (B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from and including the Issue Date of the first Tranche of the Notes to but excluding the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made on the basis of a 360-day year consisting of 12 months of 30 days each or on such other calculation basis as may be specified in the applicable Pricing Supplement.

(f) *Instalments*

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) *Partly Paid Notes*

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(h) *Purchases*

The Issuer and any of the Guarantors may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the Issuer or the Guarantors, surrendered to any Paying Agent for cancellation.

(i) *Cancellation*

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph (h) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

(j) *Late Payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Principal Paying Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 15.

9 TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer or, as the case may be, the Guarantors will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments, or governmental charges of whatever nature

imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, the Guarantors will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (i) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon (including, where the Tax Jurisdiction is the Commonwealth of Australia, his being resident in Australia or having a permanent establishment in Australia); or
- (ii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming (whether or not such is in fact the case) that day to have been a Payment Day (as defined in Condition 7(e)); or
- (iii) presented for payment on account of any present or future taxes, levies, imports, duties, fees, assessments or other governmental charges of whatever nature, imposed by Australia or by any department, agency or other political sub-division or taxing authority thereof or therein, and all interest, penalties or similar liabilities with respect thereto (“**Taxes**”) which are payable by reason of the holder being an associate of the Issuer for the purposes of section 128F of the Tax Act; or
- (iv) to the extent that such deduction or withholding would not have arisen if the Notes had been, or would be, issued in a manner which satisfies the requirements of section 128F of the Tax Act such that section 128F applies to interest paid, or any amount taken to consist of interest, in respect of such Notes; or
- (v) to the extent that the payee (a) is treated as a resident (for the purposes of the relevant double taxation agreement) in a jurisdiction having a double taxation agreement with the relevant jurisdiction of the holder giving complete exemption from Taxes otherwise imposed by such jurisdiction on the payment and (b) is not excluded from the benefit of such exemption; or
- (vi) where such withholding or deduction is required to be made pursuant to a notice or direction issued by the Commissioner of Taxation under section 255 of the Tax Act or section 260-5 of Schedule 1 to the Taxation Administration Act 1953 of Australia or any similar law; or
- (vii) in respect of any estate, inheritance, gift, sales, transfer, personal property, or any similar tax, assessment or governmental charge; or
- (viii) where such withholding or deduction is required as a result or by reason of a holder’s, or a third party on behalf of a holder’s, failure to quote a tax file number or an Australian Business Number or proof or details of some other exemption.

Notwithstanding any other provision of these Terms and Conditions, if the Issuer, or any other person through whom payments on the Notes, Receipts or Coupons are made, is required to withhold, deduct or make payments of amounts under or in connection with, or in order to ensure compliance with FATCA or section 126 of the Income Tax Assessment Act 1936 of Australia, the Issuer or that other person shall be permitted to make such withholding, deduction or payment, and Noteholders, Receiptholders or Couponholders and beneficial owners of Notes, Receipts or Coupons will not be entitled to receive any gross up, additional amount or other amount for such withholding, deduction or payment.

As used herein:

- (i) “**Tax Jurisdiction**” means the Commonwealth of Australia and any other jurisdiction of incorporation of a Guarantor (in the case of payment by the Issuer or a Guarantor, as the case may be), or, in each case, any political subdivision or any authority thereof or therein having power to tax or any other

jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or any Guarantor, as the case may be, is or becomes subject in respect of payments made by it of principal and interest on the Notes, Receipts and Coupons; and

- (ii) the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Trustee, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15.

10 PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9) therefore.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7(b) or any Talon which would be void pursuant to Condition 7(b).

11 EVENTS OF DEFAULT

The Trustee, at its discretion may, and if so requested in writing by the holders of at least one quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured to its satisfaction), (but, in the case of the happening of any of the events mentioned in sub-paragraphs (b), (e) and (g) below, only if the Trustee shall have certified in writing (subject in such event to it being indemnified and/or secured to its satisfaction) to the Issuer and the Guarantors that such event is, in its opinion, materially prejudicial to the interests of the Noteholders), give notice to the Issuer and the Guarantors that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their Early Redemption Amount (if applicable) plus accrued interest as provided in the Trust Deed, if any of the following events shall occur:

- (a) the Issuer fails to pay any principal or interest due in respect of any Note within 7 days (in the case of the principal) and 14 days (in the case of interest) of the due date for payment;
- (b) the Issuer fails to pay any amount in respect of any Notes other than principal or interest, or the Issuer or a Guarantor otherwise fails to perform or comply with any of its other material obligations under any of the Notes or the Trust Deed in respect of that Series and the failure is not remedied within 30 Business Days of notice requiring remedy from the Trustee;
- (c) an Insolvency Event occurs in respect of the Issuer or a Guarantor except in the case of a members' voluntary winding up or a voluntary deregistration or dissolution of a Guarantor which owns no assets and is solvent;
- (d) any present or future monetary obligation of the Issuer or a Guarantor in connection with moneys borrowed or raised or a guarantee or indemnity of the Issuer or a Guarantor in respect of any moneys borrowed or raised (other than Subordinated Debt) exceeding in aggregate A\$50,000,000 (or its equivalent):
 - (i) is not satisfied on time, or at end of its grace period; or
 - (ii) is declared prematurely repayable as a result of an event of default (howsoever described),
except to the extent in any instance that the existence or enforceability of the relevant obligation is being disputed in good faith;
- (e) any final judgment is enforced against any property of the Issuer or a Guarantor for an amount exceeding A\$50,000,000 and which is reasonably likely to have a material adverse effect on the Issuer's or any Guarantor's ability to meet its financial and other material obligations under any of the

Notes or the Trust Deed, and such judgment is not discharged, or a stay of execution is not obtained, within 45 Business Days; or

- (f) any of the Notes or the Trust Deed is or becomes wholly or partly void, voidable or unenforceable and that situation is not remedied within 30 Business Days of a notice requiring remedy from the Trustee.

For the purposes of this Condition 11:

“Insolvency Event” means, in respect of any body corporate, the happening of any of the following events:

- (i) an order is made that it be wound up except to reconstruct or amalgamate while solvent;
- (ii) except to reconstruct or amalgamate while solvent, an application is made to a court for an order appointing a liquidator or provisional liquidator in respect to it (unless the application is stayed, withdrawn or dismissed within 45 days);
- (iii) except to reconstruct or amalgamate while solvent, a liquidator is appointed in respect of the body corporate, whether or not under a court order;
- (iv) except to reconstruct or amalgamate while solvent, it enters into, or resolves to enter into, a scheme of arrangement, deed of company arrangement or composition with, or assignment of the benefit of, all or any class of its creditors, or it proposes a reorganisation, moratorium or other administration involving any of them;
- (v) except to reconstruct or amalgamate while solvent, an entity resolves to wind itself up, or to otherwise dissolve itself, or is otherwise wound up or dissolved;
- (vi) an entity is found or declared by a court to be insolvent or becomes insolvent within the meanings of section 95A(1) and (2) of the Corporations Act;
- (vii) a controller (as defined in the Corporations Act) is appointed to or over all or any of the property of the Issuer or a Guarantor, where the value of all the property in respect of which an appointment is made exceeds A\$50,000,000;
- (viii) an administrator is appointed to an entity; or
- (ix) anything analogous or having substantially similar effect to any of the events specified above happened under the law of any applicable jurisdiction.

“Subordinated Debt” means any debt which is subordinated in right of payment on liquidation to any other indebtedness of the Issuer.

At any time after the Notes or any of them shall have become immediately due and repayable and have not been repaid the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce repayment thereof together with accrued interest and to enforce the provisions of the Trust Deed, but it shall not be bound to institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-fifth of the nominal amount of the Notes then outstanding and (b) it shall have been indemnified and/or secured to its satisfaction. No Noteholder, Receiptholder or Couponholder shall be entitled to proceed against the Issuer or any Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

12 REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and stock exchange requirements, at the specified office of the Principal Paying Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13 AGENTS

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (i) there will at all times be a Principal Paying Agent; and
- (ii) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the Guarantors and, in certain circumstances under the Agency Agreement, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

14 EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to and including the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10.

15 NOTICES

All notices regarding the Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in Australia expected to be the Australian Financial Review or otherwise given in writing to the Noteholders. The Issuer shall ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

If the giving of notice as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent. Whilst any of the Notes is represented by a Global Note, such notice may be given by any holder of a Note to the

Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Trustee and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

16 MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION, INDEMNIFICATION OF TRUSTEE

- (a) The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Terms and Conditions or any of the provisions of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, by any Guarantor or by Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a simple majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of these Terms and Conditions, the Notes, the Receipts or the Coupons and the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of Interest thereon, reducing or cancelling the amount of nominal or the Rate of Interest payable in respect of the Notes, altering the currency of payment of the Notes, the Receipts or the Coupons or modifying the provisions concerning the quorum required at any meeting of the Noteholders or the majority required to pass an Extraordinary Resolution) the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.
- (b) The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification of, or to any waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Notes, the Receipts, the Coupons or the Trust Deed or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, which in any such case is not in the opinion of the Trustee materially prejudicial to the interests of the Noteholders. The Trustee may also agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification of any of these Terms and Conditions or any of the provisions of the Notes, the Receipts, the Coupons or the Trust Deed which, in the opinion of the Trustee, is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of applicable law.
- (c) The Trustee may, without the consent of the Noteholders, Receiptholders or Couponholders, agree with the Issuer and the Guarantors to the substitution in place of the Issuer (or any previous substitute under this Condition) as principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed of another company being either (i) a successor in business of the Issuer or (ii) any other Subsidiary of AusNet Services. Such agreement shall be subject to the relevant provisions of the Trust Deed and such other conditions as the Trustee may require, including (except where a successor in business of the Issuer is the new principal debtor) the guarantee in respect of the Notes by the Issuer and the Notes being guaranteed by the Guarantors or (where the new principal debtor is a Guarantor) by the other Guarantors. The Trustee may also agree without the consent of Noteholders, Receiptholders or Couponholders to the addition of another company as an issuer of Notes under the Programme and the Trust Deed. Any such addition shall be subject to the relevant provisions of the Trust Deed and to such amendment thereof and such other conditions as the Trustee may require. In the case of any proposed substitution or addition, the Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to a change of the law governing the Notes, the

Receipts, the Coupons and/or the Trust Deed, provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders.

- (d) In connection with the exercise of any of its powers, trusts, authorities or discretions (including but not limited to those in relation to any proposed modification, waiver, authorisation, determination or substitution as aforesaid) the Trustee shall have regard to the general interests of the Noteholders as a class, but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Guarantors or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 9 and/or in any undertakings given in addition thereto or in substitution therefore pursuant to the Trust Deed.
- (e) Any such modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders, Receiptholders and the Couponholders and, unless the Trustee otherwise requires, any such modification or substitution shall be notified by the Issuer to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.
- (f) The Trust Deed and the Agency Agreement contain provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings unless indemnified and/or secured to its satisfaction.
- (g) The Trust Deed contains provisions pursuant to which the Trustee or any of its subsidiaries or associated companies is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or any of its subsidiaries and affiliated companies and/or a Guarantor and/or any of its subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations, and perform its duties, under or in relation to any such transaction or, as the case may be, any such trusteeship without regard to the interests of the Noteholders and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

17 FURTHER ISSUES

The Issuer shall be at liberty from time to time, without the consent of the Noteholders, Receiptholders or Couponholders, to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

18 THIRD PARTY RIGHTS

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19 GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) Governing Law

The Trust Deed, the Agency Agreement, the Notes, the Receipts, the Coupons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with English law.

(b) Submission to Jurisdiction

The Issuer and each of the Guarantors agree, for the exclusive benefit of the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may

arise out of or in connection with the Notes, the Receipts and/or the Coupons (including any dispute relating to any non-contractual obligations arising out of or in connection with them) and that accordingly any suit, action or proceedings (together referred to as “**Proceedings**”) arising out of or in connection with the Notes, the Receipts and the Coupons may be brought in such courts.

The Issuer and each of the Guarantors hereby irrevocably waive any objection which they may have now or hereafter to the laying of the venue of any in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agree that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon them and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition 19 shall limit any right to take Proceedings against the Issuer or any of the Guarantors in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(c) *Appointment of Process Agent*

The Issuer and each of the Guarantors appoint Hackwood Secretaries Limited at its registered office for the time being (being at One Silk Street, London EC2Y 8HQ) as their agent for service of process, and undertake that, in the event of Hackwood Secretaries Limited ceasing so to act or ceasing to be registered in England, they will appoint another person as their agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve Proceedings in any other manner permitted by law.

FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a Temporary Global Note or, if so specified in the applicable Pricing Supplement, a Permanent Global Note which, in either case, will be delivered on or prior to the original issue date of the Tranche to the Common Depositary. Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the Exchange Date which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Note of the same Series or (b) for definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Note without any requirement for certification. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "Payment Day" set out in Condition 7(e).

Each Permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not in part for Definitive Notes: (i) by the Issuer giving notice to the Principal Paying Agent, the Trustee and the Noteholders of its intention to effect such exchange or (ii) if the Permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In the event that a Global Note is exchanged for definitive Notes, such definitive Notes shall be issued in Specified Denomination(s) only. Noteholders who hold Notes in the relevant clearing system in amounts that are not integral multiples of a Specified Denomination may need to purchase or sell, on or before the relevant Exchange Date, a principal amount of Notes such that their holding is an integral multiple of a Specified Denomination.

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined in "Terms and Conditions of the Notes"), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche

of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Agent and the Trustee.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantors unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 6, 7, 8, (except Condition 8(b)), 12, 13, 14, 15, (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 17, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

USE OF PROCEEDS

The net proceeds from the issue of the Notes will be used for general corporate purposes of the AusNet Services Group.

CAPITALISATION AND INDEBTEDNESS

The following table shows the combined capitalisation and indebtedness of the AusNet Services Group as at 30 September 2019. You should read the information in this table together with the sections of this Offering Circular titled “Selected Financial Information and Operating Data”.

	As at 30 September 2019
	<i>(A\$ million)</i>
Capitalisation	
Short-Term Debt, Including Current Portion of Long-Term Debt⁽¹⁾	1,360.8
Cash and Short-Term Deposits	180.9
Capitalisation	
<i>Long-term Debt, Less Amounts Due Currently</i>	
Hong Kong dollar (HKD) senior notes	971.6
Domestic medium term notes	2,336.0
Bank debt facilities	47.8
Euro (EUR) senior notes	1,940.7
Japanese Yen (JPY)	71.6
US dollar (USD) senior notes	130.5
Norwegian Kroner (NOK) senior notes	632.4
US dollar (USD) hybrid	551.0
Singapore dollar (SGD) hybrid	216.1
Total Long-Term Debt	6,897.7
<i>Equity</i>	
Contributed equity	5,290.6
Reserves	(1,987.3)
Retained profits	889.1
Other Equity	(1,095.1)
Total Equity	3,097.3
Total Capitalisation and Indebtedness⁽²⁾	11,174.9

Notes:

(1) Includes the senior unsecured debt of the Issuer.

Short-term debt, including the current portion of long-term debt comprises:

- A\$303.5 million of domestic medium-term notes;
- A\$132.8 million of Hong Kong dollar (HKD) senior notes;
- A\$100.0 million of floating rate notes;
- A\$824.5 million of Euro (EUR) senior notes.

AusNet Services had A\$650 million of undrawn but committed non-current bank debt facilities, A\$100 million of undrawn but committed current bank debt facilities and A\$180.9 million cash on deposit as at 30 September 2019.

- (2) Since 30 September 2019, there has been no material change to the capitalisation, indebtedness or contingent liabilities of the AusNet Services Group.

Since the end of the financial period ended 30 September 2019, an interim dividend for the 2020 financial year of A\$188.2 million (5.10 cents per fully paid share) was paid on 19 December 2019. The DRP was in operation for the interim dividend in the current year. AusNet Services issued approximately 37 million new shares under the DRP to raise approximately A\$62 million.

SELECTED FINANCIAL INFORMATION AND OPERATING DATA

This section presents selected financial information and selected operating data of the AusNet Services Group. The AusNet Services Group's consolidated financial report is prepared as an aggregation of the financial statements of AusNet Services and its controlled entities. The financial information and operating data should be read together with the financial statements and related notes for the 12-month period ended 31 March 2019, the 12-month period ended 31 March 2018, the six-month period ended 30 September 2019 and the six-month period ended 30 September 2018. The AusNet Services Group's consolidated financial statements are prepared in accordance with Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board and the Corporations Act. The consolidated financial statements and notes also comply with International Financial Reporting Standards and the interpretations adopted by the International Accounting Standards Board. Due to the seasonal nature of the AusNet Services Group's business, results for interim periods may not be indicative of results that may be expected for an entire year.

Selected Financial Information of the AusNet Services Group

The financial information in the table below has been derived from the AusNet Services Group's audited consolidated financial statements for the 12-month periods ended 31 March 2019 and 31 March 2018.

	As at and for the year ended 31 March	
	2019	2018
	(A\$ million)	
Income Statement		
Revenue from continuing operations	1,861.5	1,909.8
Expenses excluding finance costs	1,183.7	1,209.3
Finance costs (net)	305.9	283.9
Profit before income tax.....	371.9	416.6
Income tax expense.....	118.0	125.2
Net profit	253.9	291.4
Balance Sheet		
Total assets.....	12,815.8	12,517.3
Total interest bearing liability—current.....	979.7	465.4
Total interest bearing liability—non-current.....	6,966.7	7,099.7
Equity.....	3,289.1	3,556.0
Cash Flows		
Cash flows from operating activities.....	813.7	886.4
Cash flows from investing activities	(882.9)	(716.8)
Cash flows from financing activities.....	(249.6)	159.8
Net increase/(decrease) in cash held	(318.8)	329.4
Capital expenditure	969.8	750.2

The financial information in the table below has been derived from the AusNet Services Group's reviewed consolidated financial statements for the six-month periods ended 30 September 2019 and 30 September 2018.

	As at and for the six month period ended 30 September	
	2019	2018
	<i>(A\$ million)</i>	
Income Statement		
Revenue from continuing operations	1,020.7	995.8
Expenses excluding finance costs	623.2	586.8
Finance costs (net)	152.0	149.4
Profit before income tax	245.5	259.6
Income tax expense	73.7	78.1
Net profit	171.8	181.5
Balance Sheet		
Total assets	13,193.7	12,365.6
Total interest bearing liability—current	1,360.8	451.4
Total interest bearing liability—non-current	6,897.7	6,968.0
Equity	3,097.3	3,537.5
Cash Flows		
Cash flows from operating activities	356.2	409.1
Cash flows from investing activities	(458.8)	(422.4)
Cash flows from financing activities	(55.9)	(482.0)
Net increase/(decrease) in cash held	(158.5)	(495.3)
Capital expenditure	458.0	462.4

Selected Operating Data of the AusNet Services Group

	As at and for the year ended 31 March		
	2019	2018	2017
Electricity Transmission Business			
Electricity transmitted—gigawatt hours (“GWh”)	43,185	43,800	43,783
Energy and Gas Distribution Business			
Electricity customer supply points	736,841	722,046	705,186
Electricity distributed—GWh	7,608	7,716	7,682
Gas customer supply points	711,310	692,282	676,035
Gas distributed—petajoules (“PJ”)	63.3	66.0	66.3

INDUSTRY/REGULATORY OVERVIEW

Industry Overview

The Electricity Industry

Electricity Generation

In Australia, electricity is mainly produced from the burning of fossil fuels, such as coal and natural gas at power stations, to create pressurised steam. The steam is forced through a turbine at high pressure to drive the generator. Other forms of electricity generation include open-cycle gas-fired, combined cycle gas-fired and renewable sources such as the sun, wind, biomass or water. Increasingly, energy generation from renewable sources is becoming an important part of the energy mix.

The total installed capacity of rooftop solar systems in the NEM reached 7.8 GW in July 2019, equivalent to 13% of the NEM's total generation capacity.⁴ The output of solar PV installations was virtually zero until 2010, but by 2019 was meeting over 4% of the NEM's electricity requirements. The penetration rate for rooftop solar PV systems in Australia is now among the world's highest. Around 2 million⁵ energy customers have installed solar PV systems and sell surplus energy back into the grid. The demand for electricity varies depending on conditions. For instance, demand tends to peak in the summer when heat drives up air conditioning loads and in the winter when cold weather increases heating requirements.

According to the AER's State of Energy Market May 2018 report, over 150 registered generators participate in the NEM⁶. Electricity generated by small rooftop solar systems is not traded through the NEM. The total installed capacity of generation facilities within the NEM is approximately 60,839 MW⁷ and the electricity produced by major generators in the NEM is sold through a central dispatch process managed by the AEMO.

The AusNet Services Group is not a registered generator. The AusNet Services Group primarily operates in electricity transmission and electricity distribution businesses, however, on 4 September 2019, AusNet Transmission Pty Ltd was granted a generation licence in respect of its role as owner and maintainer in relation to the Ballarat Battery Energy Storage System. AEMO's view is that AusNet Transmission Pty Ltd is not required to be registered as a generator in respect of the battery storage system, but the ESC, the entity responsible for licensing generators in Victoria, took the view that AusNet Transmission Pty Ltd, as owner and maintainer of the battery storage system, and not the third party operator, was required to obtain a generation licence. The requirements of the generation licence are not materially different to AusNet Transmission Pty Ltd's contractual requirements in respect of the battery storage system, will not have any material compliance costs and will not materially increase or otherwise materially affect AusNet Transmission Pty Ltd's other regulatory requirements.

Electricity Transmission

Large scale electricity generation facilities are typically located close to fuel sources such as coal mines, natural gas sources and hydroelectric dams, which are often long distances from end customers. Transmission networks are comprised of high-voltage lines and, in general, transport electricity from generators to distribution networks, which in turn transport electricity to customers. In a few cases, large industrial customers are directly connected to the transmission network.

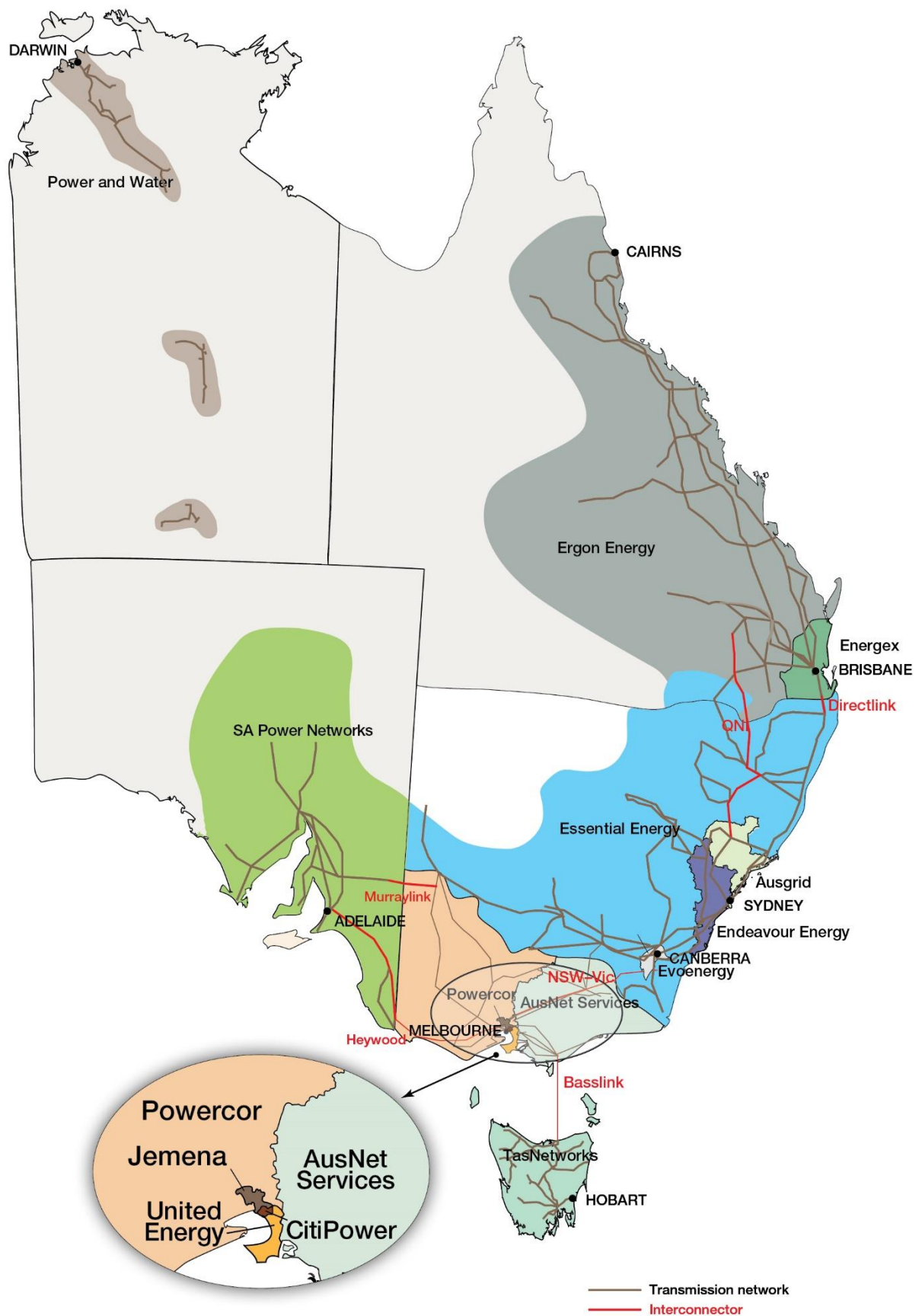
The transmission network which services the NEM is comprised of state-based transmission networks and cross-border interconnectors. The National Grid provides an interconnected transmission network in Queensland, NSW, the Australian Capital Territory, Victoria, South Australia and Tasmania (see map below). The transmission networks in Western Australia and the Northern Territory are not connected to the National Grid.

⁴ AER State of the Energy Market 2019 data update Chapter 2 Figure 2.6

⁵ AER State of the Energy Market 2018 page 14

⁶ AER State of the Energy Market 2018 page 108.

⁷ AER State of the Energy Market 2019 Update Chapter 2 Table 2.1.



Source: AER State of the Energy Market 2018. Reprinted with the permission of the AER.

Notes: Entities named in the graphic above in black are electricity distribution businesses in the NEM.
 QNI: Queensland-NSW Interconnector.
 Basslink is not regulated by the AER

Victoria and South Australia privatised their electricity transmission assets in the 1990s; Victoria by means of sales, and South Australia by means of long-term leases. In November 2015, the NSW government announced the long-term lease of its transmission network to a private operator. In other Australian States, the primary electricity transmission networks remain State-owned. Victoria has a unique transmission network structure in which asset ownership is separated from planning and investment decision making. The AusNet Services Group owns Victoria's primary network of transmission assets, but the AEMO plans and directs most network augmentation, underpinning a framework for competitive provision of services provided by new infrastructure. The AEMO buys bulk network services from the AusNet Services Group for sale to customers.

Electricity Distribution

Distribution networks move electricity from the transmission network to residential and business electricity customers. Distribution networks consist of lower voltage wires and other apparatus. In Victoria and South Australia, the distribution networks are privatised. A consortium led by CK Infrastructure recently gained a controlling interest in Victorian distributor United Energy, adding to its control of CitiPower and Powercor Networks. In October 2016, the NSW government announced the award of a long-term lease for 50.4% of AusGrid to private operators, with the award of a similar lease for Endeavour Energy announced in March 2017. In June 2016, the Queensland government announced the merger of the two Queensland government owned distributors namely, Energex and Ergon Energy, to become Energy Queensland. Generally in the NEM, electricity distributors provide the network infrastructure but do not sell electricity.

Electricity Retailing

Electricity energy retailers buy electricity in the NEM and package it with distribution and transmission (network) services for sale to customers. The energy retail sector is run predominantly by privately owned businesses. Significant vertical integration exists between energy retail markets and upstream energy production. The AusNet Services Group does not participate in electricity retailing.

The Gas Industry

Gas Reserves

Natural gas is a versatile source of energy that has a range of industrial, commercial and domestic applications, including electricity generation, and acts as an input for numerous processes and products, including manufacturing pulp and paper, metals, chemicals and processed foods. Predominantly made up of methane and occurring in combination with other hydrocarbons, in liquid or gaseous form, natural gas burns cleaner than other fossil fuels, such as oil and coal, and generally produces fewer greenhouse gas emissions per unit of energy released. It is found in underground reservoirs trapped in rock, often in association with oil. Coal Seam Gas ("CSG") is also found in Australia in sufficiently large quantities to be a viable alternative to conventional gas supplies.

According to the AER's State of the Energy Market 2018, current estimates indicate there are approximately 42,907 PJ of 2P natural gas reserves in Eastern Australia, comprised of 90% of CSG, with the remainder in offshore basins. Eastern Australia produced 1,883 PJ of natural gas in 2017, of which 39% was for the domestic market. The balance was exported as LNG.

Gas Transmission

Natural gas transmission pipelines transport gas at high pressure from the natural gas reserves to the major domestic markets. The main users of gas transmission pipelines are energy retailers and owners of gas fired power stations. The gas pipeline coverage process has led in recent years to the lifting of economic regulation from several key transmission pipelines.

Gas Distribution

Natural gas distribution networks transport gas from gas transmission pipelines to residential homes, offices, hospitals and businesses. The main customers of gas distributors are energy retailers who sell gas to end users. Distribution charges for metering and transport often represent the most significant component of delivered gas costs.

A gas distribution network typically consists of high, medium and low pressure pipelines servicing residential, industrial and commercial customers. Low pressure pipelines are older and are gradually being replaced with higher pressure pipelines that provide greater capacity and reliability.

Gas Retailing

Gas energy retailers buy gas in wholesale markets and package it with transmission and distribution (network) services for sale to customers. The energy retail sector is predominantly run by privately owned businesses. Significant vertical integration exists between energy retail markets and upstream energy production. The AusNet Services Group does not participate in gas retailing.

Regulatory Overview

Institutional Arrangements

The COAG Energy Council, established under the COAG, provides a forum for collaboration on developing an integrated and coherent national energy policy and any implications from the Commonwealth's abolition of the carbon tax.

The Energy Security Board was established by the COAG Energy Council in August 2017 to provide whole-of-system oversight for energy security and reliability. It is comprised of an Independent Chair, Independent Deputy Chair and the most senior leaders of the AEMC, AER and AEMO.

The AEMC is responsible for rulemaking and market development. The AER is responsible for the economic regulation of energy networks and rule enforcement. The AEMO administers the operation of the NEM and gas markets in Australian States and Territories, other than the Northern Territory, and performs national transmission planning and transmission planning for Victoria. The establishment and functions of these bodies were provided for by the Commonwealth and the States and Territories of Australia in the AEMA.

The chart below illustrates key legislation, codes and guidelines that apply to electricity industry participants in Victoria.



Source: AusNet Services Group.

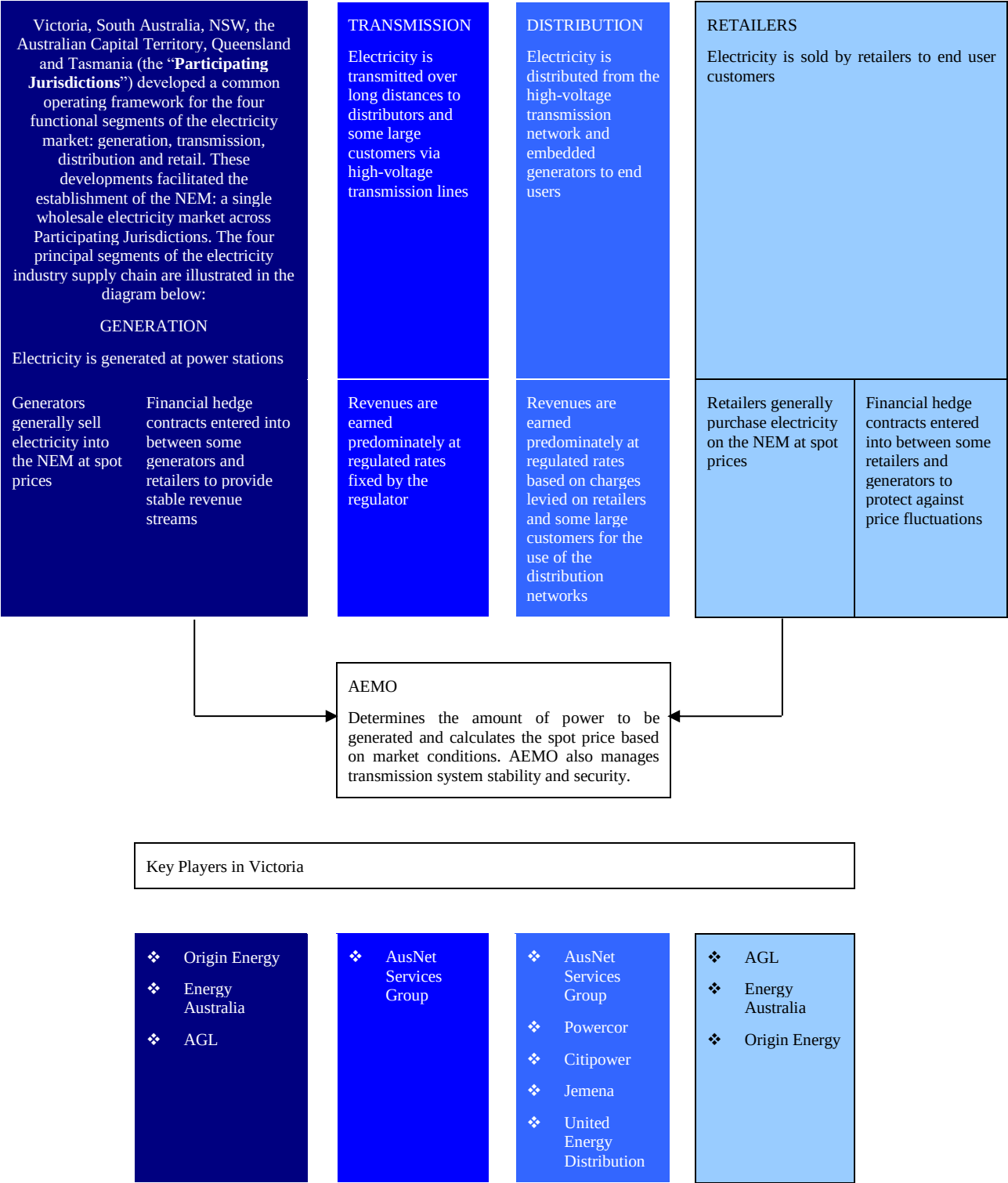
While the Victorian ESC retains general regulatory authority over Victorian electricity regulatory instruments (including the power to modify them), the AER now administers and ensures compliance with various aspects of Victorian electricity regulatory instruments (for example, economic regulation of transmission and distribution networks). The ESC was established under the ESC Act with the primary objective of protecting the long-term interests of Victorian consumers with regard to the price, quality and reliability of essential services.

The ESC's (and the AER's, where exercising Victorian jurisdictional powers) general regulatory powers are set out in the ESC Act and are applied to the Victorian electricity industry by the EIA. The EIA sets out the ESC's powers with respect to licensing and service regulation. Entities are required to hold a licence (or a licence exemption) from the ESC

before they can engage in the generation of electricity for sale or supply or the transmission, distribution, supply or sale of electricity in Victoria. As an electricity transmitter and distributor, the AusNet Services Group holds both transmission and distribution licences.

Legislative Framework for Electricity

National Electricity Market



Source: AusNet Services Group.

A co-operative Commonwealth, State and Territory legislative framework is in place to govern the operations of the NEM. The current governance framework of the NEM and oversight of the MCE (now the COAG Energy Council) were provided for in the AEMA.

The present framework works through “lead” legislation enacted in South Australia: the NE(SA) Act. The NEL is a schedule to the NE(SA) Act which is applied as the law in the other NEM participating jurisdictions through “application Acts”. The NEM legislative framework is made up of other key legislation. These include the National Electricity (South Australia) Regulations, the NEL made under the NEL, Part IIIA of the CCA establishing the AER, and the Australian Energy Market Commission Establishment Act 2004 of South Australia. The NEL regulates the NEM and operates simultaneously with State-based regulation of the electricity industry.

The NEL requires that persons owning, controlling or operating a generation system connected to the National Grid, or a transmission or distribution system comprising part of the National Grid must be registered with the AEMO or exempted from registration in accordance with the NEL. Purchasers of electricity through the wholesale spot market (i.e., retailers and large industrial customers) must also be registered or exempted from registration.

The transmission revenue setting and pricing rules are contained in Chapter 6A of the NEL and those for electricity distribution are in Chapter 6. The NEL provides a detailed process for revenue proposals, including with respect to the expected content of such proposals and the timeframe and substance of the AER response. In addition, the AER is required to publish the basis and its underlying rationale for regulatory decisions.

Electricity Industry Act 2000 (Vic)

In addition to the legislation governing the NEM, each jurisdiction has its own State legislation governing the electricity sector. For example, in Victoria the EIA provides, among other things, for the licensing of electricity businesses operating in that jurisdiction.

Electricity Transmission Licence

A member of the AusNet Services Group holds an electricity transmission licence in Victoria issued in October 1994 with no expiry date. The licence authorises the licensee to transmit and supply electricity using the AusNet Services Group’s electricity transmission system subject to certain conditions. The ESC may revoke the licence at any time upon providing 20 business days’ notice if the AusNet Services Group does not comply with an enforcement order or undertaking and the ESC determines that the revocation is necessary to achieve the policy objectives under the EIA or the ESC Act.

The licence contains provisions relating to network augmentation and the connection of generators, distributors and end users to the AusNet Services Group’s transmission system. Further, the licensee must comply with the NEL and the Electricity System Code, which together regulate the provision of shared transmission network services and connection to the transmission network by generators, distributors and end users. The AusNet Services Group monitors its licence compliance obligations through its corporate compliance system.

Transmission Network Augmentation

The AEMO is responsible for planning and procuring new capacity for the shared electricity transmission network in Victoria. The shared electricity transmission network in Victoria is composed of assets operating at 220 kV or above that supply more than one connection point. For connection assets linking energy networks, planning accountability resides with the relevant generation and distribution companies and large consumers. The AEMO is required to seek contestable bids from transmission providers for any major new shared transmission asset. The NEL determine whether a project is contestable. Smaller projects with a cost of less than A\$10 million, or projects that require heavy integration with the existing AusNet Services Group transmission assets, may be treated as non-contestable.

Contestable transmission augmentation is not subject to economic regulation under the NEL. Revenue for contestable augmentation services is determined under a separate take-or-pay contract covering the life of the service (generally around 30 years).

Augmentation proposals for non-contestable projects are generally subject to terms that reflect the fact the services are subject to economic regulation under the NEL as either prescribed or negotiated transmission services. For prescribed transmission services a separate service contract covers the period from the installation of the asset to the end of the applicable regulatory reset period. The new asset is added to the RAB from the commencement of the subsequent regulatory period. This is reflected in the revenue cap for regulated transmission services, determined by the AER for the new period.

Electricity Distribution Licence

A member of the AusNet Services Group holds an electricity distribution licence in Victoria issued in October 1994 with no expiry date. The licence authorises the licensee to distribute electricity in its distribution area subject to certain conditions. These include requirements that the licensee:

- provide specified distribution services to electricity users within the distribution area, including connection services, services to other distributors and public lighting services;
- offer to enter into a default use of system agreement (approved by the ESC) for the use of its distribution network on request by a retailer. Alternatively, the licensee and a retailer may negotiate their own terms for the use of the distribution network; and
- comply with a number of codes and guidelines issued by the ESC. The most important of these codes and guidelines is the Electricity Distribution Code, which regulates the provision of distribution services and connection to the AusNet Services Group's distribution network by electricity users.

The ESC may revoke the licence at any time upon providing 20 business days' notice if the licensee does not comply with an enforcement order or undertaking and the ESC decides that the revocation is necessary to achieve the policy objectives under the EIA or the ESC Act. The AusNet Services Group monitors its licence compliance obligations through its corporate compliance system.

Cross-Ownership and Ring-Fencing in Electricity

The cross-ownership rules in the EIA for the energy sector in Victoria were repealed in 2013, thereby removing restrictions on cross-ownership in the electricity sector in Victoria. The provisions of the CCA continue to apply to any proposals for vertical integration of production and network infrastructure.

The AER's transmission ring-fencing guidelines prevent a transmission business carrying on a related business, including a distribution business, unless a waiver is granted. Such a waiver was granted to the AusNet Services Group in March 2005, taking into account the role of AEMO and the Victorian distribution businesses in network planning and directing network augmentation. TasNetworks was also granted a waiver by the AER in 2014 on the basis that there is little public benefit in requiring TasNetworks to maintain legally separate transmission and distribution businesses.

In August 2019 AusNet Services applied to the AER for this waiver to be revoked, as AusNet Transmission Group (the transmission business) had become operationally separate from AusNet Electricity Services (the electricity distribution business). Therefore AusNet Services Group was compliant with the AER's transmission ring fencing guidelines and the waiver was no longer required. The AER formally revoked this waiver on 2 December 2019.

The transmission ring-fencing guidelines are currently subject to review by the AER. This is due to complete in 2020, with any resulting requirements coming into effect from 1 July 2021.

The AER published ring-fencing guidelines for electricity distribution in November 2016. A transition period was in place until December 2017. Measures imposed by the guideline include legal separation of the distribution entity, separate accounting and cost allocation obligations. An annual compliance report is required to be produced. The ring fencing guidelines were amended by the AER on 17 October 2017 to clarify definitions to avoid unintended consequences. On 19 August 2019 the AER commenced a review of the distribution ring-fencing guidelines, which will update the guidelines, strengthen some provisions and reduce the administrative burden of compliance.

Legislative Framework for Gas

National Gas Access Regime

The current legislative regime for the gas sector is comprised of jurisdiction specific legislation (such as the GIA), and national legislation governing the regulation of gas networks and pipelines. The National Gas (South Australia) Act 2008, to which the NGL is a schedule, and the NGR made under the NGL replaced the regulatory regime under the National Gas Code and the market and system operation rules which formerly governed the Victorian wholesale gas market. Under the NGL and the NGR, the AER has responsibility for approving the access arrangement proposed by the AusNet Services Group for each regulatory period. Where the proposed arrangement is not approved by the AER, the AER may make an alternative access arrangement which will apply for the regulatory period. The approved reference tariffs form part of the approved access arrangement.

Gas Industry Act 2001 (Vic)

The GIA establishes the functions of the key Victorian regulatory bodies (including where exercised by the AER) in the industry and provides for the establishment of regulatory instruments, including the gas distribution and retail licences. The ESC is responsible for licensing participants in the Victorian gas industry.

Gas Regulatory Framework

The chart below illustrates key legislation, codes and guidelines that apply to gas industry participants in Victoria.



Source: AusNet Services Group.

Gas Distribution Licence

A member of the AusNet Services Group holds a gas distribution licence in Victoria issued in December 1997 with no expiry date. The licence authorises the licensee to distribute gas in its distribution area subject to certain conditions.

In particular, the licensee must comply with a number of codes and guidelines issued by the ESC including the Victorian Gas Distribution System Code, which prescribes minimum standards for the operation and use of the distribution system.

The ESC may revoke the licence at any time upon providing 20 business days' notice if the licensee does not comply with an enforcement order or undertaking and the ESC decides that the revocation is necessary to achieve the policy objectives under the GIA and the ESC Act. The AusNet Services Group monitors its licence compliance obligations through its corporate compliance system.

Cross-Ownership in Gas

The cross-ownership restrictions in the GIA were repealed in 2013. The repeal removed restrictions on cross-ownership in the gas sector in Victoria. The general anti-competitive provisions of the CCA continue to apply to conduct in respect of any vertical integration of production and distribution infrastructure.

Access — Electricity and Gas

Since the early 1990s, the competitive elements of the energy market (i.e. retail and generation) have become increasingly separated from the monopoly networks (i.e. transmission and distribution). This disaggregation was driven in part by the National Competition Policy (a programme of microeconomic reform embarked upon by all Australian jurisdictions in 1995). While typically vertically integrated electricity utilities no longer exist, in recent years there has been significant reintegration of the market sectors through firms combining generation and retailing activities. In some Australian States there is still common government ownership of disaggregated electricity businesses. In Victoria and South Australia, and to a more limited extent in Queensland and NSW, previously State-owned electricity enterprises have been privatised. Similar disaggregation and privatisation also occurred in the gas industry in some jurisdictions.

Together with these reforms, arrangements were introduced for access to networks, including independent price regulation for networks with monopoly characteristics. The arrangements for the gas and electricity sectors evolved separately.

Economic Regulation

Summary of Regulatory Oversight of the AusNet Services Group's Businesses

The principal legislation and the role of each regulatory body responsible for economic regulation of the existing AusNet Services Group 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. The regulatory pricing periods are generally five years for all three networks.

Sector	Primary Legislation	Economic Regulator
Victorian electricity transmission (AusNet Services Group)	National Electricity Law	AER
	National Electricity Rules	
	National Electricity (Victoria) Act 1997 (Vic)	
Victorian electricity distribution (AusNet Services Group)	National Electricity Law	AER
	National Electricity Rules	
	National Electricity (Victoria) Act 1997 (Vic)	
	Electricity Industry Act 2000 (Vic)	ESC

Sector	Primary Legislation	Economic Regulator
Victorian gas distribution (AusNet Services Group)	National Gas Law National Gas Rules National Gas (Victoria) Act 2008 (Vic)	AER

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 five 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 the AusNet Services Group’s 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 on-going operations and maintenance costs, depreciation, and a return on assets, calculated by reference to the business’s WACC. Network charges derived using the building block approach are averaged over the five-year regulatory period to minimise any price volatility for end customers. Electricity transmission and distribution revenue is recovered as a fixed amount and is not affected by usage volume. Currently, the revenue requirement for the gas distribution business is converted to a price cap, having regard to forecast volume.

Regulators

Since 1997, the economic regulation of transmission networks has been undertaken by a national regulator (formerly the ACCC and now the AER). Amendments to the NEL enabled the transfer of the economic regulation of electricity distribution to the AER from 1 January 2008. Previously, this role was undertaken in Victoria by the ESC. Economic regulation of gas distribution transferred to the AER under the national regulatory arrangements for gas. The AER’s most recently completed revenue reset for an AusNet Services Group network was the gas distribution determination, which applies from 1 January 2018 until 31 December 2022.

Regulated Investments

Almost all shared use electricity network infrastructure 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 provide 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 will be subject to economic regulation.

Electricity Transmission Revenue Determination Process

Transmission revenue for prescribed services is regulated under an incentive-based framework with the establishment of annual revenue caps over the regulatory control period. The building block approach is applied, providing for a target revenue stream that is designed to cover on-going operating and maintenance costs, depreciation and a return on assets, calculated by reference to the transmission business’s WACC.

The revenue determination process is set out in Chapter 6A of the NER. Chapter 6A was amended on 29 November 2012 as part of a wider change to the NER to improve economic regulation of network businesses. The following paragraphs describe the process as it presently applies to the AusNet Services Group’s transmission business.

The review process commences with the transmission company submitting a detailed proposal that outlines the costs expected to be incurred in delivering an efficient transmission service and defines the services to be provided which

includes input from customers following consultation. The regulator reviews this submission in detail. In the course of reaching its final decision on the regulated revenue cap for electricity transmission, the AER adopts a consultative process with all relevant stakeholders in order to reach a well-informed and balanced judgment.

After considering all relevant information and completing the first consultative process, the AER releases a draft decision, to which the transmission business may provide a response together with a revised revenue proposal to address matters raised in the draft decision. The response, and submissions received from interested stakeholders on the draft decision, are considered by the AER before it makes its final decision.

Amendments to the NEL made in 2007 introduced a regime for limited merits review of regulatory decisions under the NEL, the National Electricity (South Australia) Regulations or the NER, however, in October 2017, the ability of networks to access these provisions was abolished. However, judicial review remains an option.

The AER may revoke a revenue determination or amend a pricing methodology during a regulatory control period and make a new one where it appears to the AER that the total revenue cap was set, or the pricing methodology approved, on the basis of information that was false or misleading in a material particular, or if there was a material error in the revenue cap or methodology.

The AER delivered a final decision on AusNet Services Group's electricity transmission network's regulated revenues for 2017/18 – 2021/22 in May 2017. These will be updated every year to incorporate prevailing debt rates for 10% of the debt portfolio.

Electricity Distribution Price Determination Process

The prices charged by electricity distribution businesses are regulated by the AER under a number of regulatory instruments.

Since 1 January 2016, electricity distribution revenue for prescribed services is regulated under a revenue cap regime, with revenues determined under an incentive-based framework. A building block approach is used by the AER, which provides for a target revenue stream that is designed to cover on-going operating and maintenance costs, depreciation, and a return on assets, calculated by reference to the distributor's WACC.

The regime offers electricity distribution companies the opportunity to realise and capture some efficiency gains.

Regulated revenues are calculated for a minimum of five years. Amendments to the NEL enacted in 2007 provide for limited merits review of regulatory decisions; however, in October 2017 the ability of networks to access these provisions was abolished. However, judicial review remains an option.

The AER may revoke a distribution determination during a regulatory control period and make a new one where it appears to the AER that a determination is affected by a material error or deficiency that is a clerical mistake or accidental slip or omission, a miscalculation or misdescription, a defect in form, or a deficiency resulting from the provision of false or materially misleading information.

2016 distribution prices were set pursuant to the 2015 EDPR Preliminary Decision. Transitional arrangements governing the 2016-20 revenue reset process mean that the 2016 revenues were set by the AER's Preliminary Determination. The substituted determination was made in May 2016 (the final determination).

Under this final determination, revenues are updated each year of the period to incorporate prevailing debt rates for 10% of the portfolio.

In March 2017, AusNet Services submitted a contingent project application to the AER to fund the first tranche of the REFCL programme. The AER published its determination on 21 August 2017, amending allowed revenues for 2018-2020.

On 18 December 2017, the AER flagged its intent to revoke and substitute its 2016-20 regulatory determination, to correct an error impacting the forecast of inflation applied to set revenues. This was implemented in early 2018, reducing total revenue for 2019 and 2020 by A\$3.48 million in nominal net present value terms.

In April 2018 AusNet Services submitted a contingent project application to the AER to fund the second tranche of the REFCL Programme. The AER published its determination on 31 August 2018, amending allowed revenues for 2019 and 2020.

In May 2019 AusNet Services submitted a contingent project application to the AER to fund the third tranche of the REFCL Programme. The AER published its determination on 3 October 2019, amending allowed revenues for 2020.

Advanced Metering Infrastructure programme

In 2006, the Victorian State Government announced its decision to roll out advanced interval meters to all Victorian electricity customers.

The Victorian State Government established a range of requirements for the programme, including technology functionalities, performance and service levels, as well as a framework for the regulated recovery of costs associated with the programme. The requirements are documented in the AMI Cost Recovery Order in Council (“**AMI CROIC**”), the Minimum AMI Service Levels Specification Victoria (September 2008) and the Minimum AMI Functionality Specification Victoria (September 2013).

The AMI CROIC established a building block cost pass-through regime for the setting of the prices for the regulated metering services and provides for exit charges to be paid to the distribution business by retailers. This allowed the AusNet Services Group to recover all investments in the programme in full that are within budget, contingencies and scope, even if competitive activities were to occur and retailers supplied their own meters in the future.

The AMI CROIC required the AusNet Services Group to install in excess of 680,000 interval meters together with the appropriate communications and information technology systems by 31 December 2013.

From 1 January 2016, metering services are no longer governed under the AMI CROIC but rather the NEL and NER as Alternative Control Services with a revenue cap.

Economic Regulation of Gas Distribution Networks

Under national regulatory oversight arrangements which apply under the NGR, the AER is responsible for regulating gas distribution tariffs pursuant to the National Gas Law. This is undertaken as a component of approving the proposed access arrangement to apply in the access arrangement period. In approving gas distribution tariffs, the AER must also consider the general pricing principles in the National Gas Law. Similar to electricity distribution, the gas distribution networks are currently price-cap regulated with a building block approach used to derive tariffs.

Each Victorian gas distributor must submit a proposed access arrangement for its distribution network for approval by the AER, who may require changes if it is not satisfied that the arrangement meets the requirements of the National Gas Law and NGR. The approved access arrangement establishes the tariff variation mechanism that is applied to adjust tariffs until the next regulatory reset, as well as outlining any principles to be used to review distribution tariffs at subsequent resets. The AusNet Services Group’s current access arrangement was approved by the AER with effect from 1 January 2018.

Economic Regulation of Gas Transmission Networks

The AER is currently responsible for overseeing third-party access to gas transmission networks, including the approval of access arrangements in accordance with the National Gas Law. As reported on the AER website, the functions of the AER include:

- consideration and approval of access arrangements submitted by service providers under the National Gas Law, monitoring and enforcing reference tariffs, ring-fencing, incentive regulation and other access arrangement provisions;
- arbitrating disputes relating to the terms and conditions of access;
- overseeing competitive tendering processes for new transmission pipelines; and
- contributing to the on-going refinement of the national framework for access to transmission and distribution infrastructure in the gas industry.

Technical Standards

In addition, energy network 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 the technical regulation of electricity and gas infrastructure in Victoria.

Other Regulation

In addition to gas and electricity specific regulation, the AusNet Services Group is subject to a range of general regulatory and legal requirements including those relating to the environment, occupational health and safety, land use and access, native title and cultural heritage.

Regulatory Reforms

The current arrangements relating to national economic regulation of the gas and electricity sectors are described above.

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 the AusNet Services Group has applied since August 2011. Since 2012, an f-factor scheme aimed at providing incentives to reduce the risk of fire starts and to reduce the risk of loss or damage caused by fire starts has applied to AusNet Services' electricity distribution network. For the first four years of this scheme (2012 to 2015), DNSPs were 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. An amended f-factor scheme which features tiered rewards/penalties to reflect bushfire risk levels in different locations was finalised in 2016 and is now in effect, with incentive rates per fire incident ranging from A\$300 to A\$1.5 million.

The regulatory framework within which the AusNet Services Group 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.

Victoria has not sought, at this stage, to adopt the National Electricity Customer Framework ("NECF") established in 2011. The National Energy Retail Law deals primarily with:

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

However, the Victorian government has adopted the retail customer connections component of the NECF, commencing July 2016. This governs the connection application, offer and charging arrangements for connection services.

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

- ***The Limited Merits Review Regime*** – Following review by the COAG Energy Council, access to the Limited Merits Review Regime has been removed. In a related initiative COAG Energy Council introduced legislative amendments in 2018 to make the Rate of Return Guideline prepared through a consultative process by the AER binding on all regulatory determinations.
- ***Expanding Competition in Metering and Related Services*** – This rule change determination, published in November 2015 and arising from the Power of Choice Review, provides for a national framework for contestable mass market metering to apply from December 2017. The rollout of smart metering in Victoria has proceeded separately, via a state government mandated rollout by the distribution networks. Via an Order gazetted in October 2017, the Victorian Government has determined to extend the current Victorian arrangements until at least 2021, subject to a review which is currently underway.
- ***Ring-fencing guidelines for Electricity Distribution*** – The AER has developed national ring-fencing guidelines for electricity distribution. The guidelines impose obligations on DNSPs, targeting behaviours that could result in harm to competitive markets arising through cross-subsidisation and discrimination. The AER is currently reviewing these guidelines to tighten up some provisions, reduce the compliance reporting burden and avoid unintended consequences.

- ***Ring-fencing guidelines for Electricity Transmission*** – The AER is currently reviewing the national transmission ring-fencing guidelines, which were developed in 2002. It will determine whether these guidelines remain fit-for-purpose, or whether the emergence of new services provided by some transmission networks e.g. battery storage, mean the guidelines warrant an update to ensure that no anti-competitive practices such as cross-subsidisation and discrimination emerge.
- ***Review of the Electricity Distribution Code*** – The Essential Services Commission is currently reviewing the Electricity Distribution Code. This sets out various technical and operational obligations, including in relation to life support customer notifications and Guaranteed Service Levels. This could result in additional costs to ensure compliance with any new obligations and standards.
- ***National Laws Enforcement and Penalties Framework*** – COAG is consulting on draft legislation which will strengthen the AER's enforcement regime, including extending and increasing civil penalty provisions and enhancing the AER's information gathering powers.

BUSINESS OF THE AUSNET SERVICES GROUP

AusNet Services Group Overview

The AusNet Services Group is a diversified energy infrastructure business that owns and operates the AusNet Services Group's Electricity Transmission Network, as well as an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria. The AusNet Services Group has also established an unregulated business, Mondo, which provides unregulated infrastructure services and specialised utility related solutions, in particular metering and asset intelligence services.

The AusNet Services Group's total consolidated revenues were A\$1,020.7 million for the half year ended 30 September 2019, of which 87% was regulated. The AusNet Services Group's total consolidated revenues were A\$1,861.5 million for the financial year ended 31 March 2019. As the primary provider of electricity transmission services in Victoria, the AusNet Services Group receives regulated revenues based on the regulated price path as determined by the AER. For the half year ended 30 September 2019, total transmission revenues were A\$322.8 million (prior to inter-segment eliminations) and A\$618.2 million (prior to inter-segment eliminations) for the financial year ended 31 March 2019. As one of five providers of electricity distribution services and one of three providers of gas distribution services in Victoria, the AusNet Services Group receives regulated revenues as determined by the AER based on actual usage by end users of the distribution networks. From 1 January 2016, electricity distribution is subject to a revenue cap, meaning that any revenue outperformance or underperformance arising from volume differences is adjusted in subsequent tariff rates. Total distribution revenues were A\$484.8 million (prior to inter-segment eliminations) for the half year ended 30 September 2019 and A\$866.2 million (prior to inter-segment eliminations) for the financial year ended 31 March 2019. As a provider of unregulated infrastructure services and specialist utility related solutions, Mondo contributed revenue from third parties of A\$75.0 million (prior to inter-segment eliminations) for the half year ended 30 September 2019 (A\$86.4 million total revenue including finance income for the half year ended 30 September 2019) and A\$172.1 million (prior to inter-segment eliminations) for the financial year ended 31 March 2019 (A\$183.8 million total revenue including finance income for the financial year ended 31 March 2019).

The AusNet Services Group's estimated total Regulated/Contracted Asset Base was A\$10.5 billion as at 30 September 2019, consisting of electricity transmission of A\$3.6 billion, electricity distribution of A\$4.3 billion, gas distribution of A\$1.6 billion, AMI of A\$0.2 billion and contracted transmission assets, including the Victorian desalination contract, of A\$0.8 billion. The RAB, which is the majority of the Regulated/Contracted Asset Base, is an estimate that is subject to review by the relevant regulators.

AusNet Services is listed on the ASX.

AusNet Services Group's Growth Strategy

During the financial year ended 31 March 2019, 85% of the AusNet Services Group's revenue came from regulated sources, and while the AusNet Services Group remains focused on the continued growth in the regulated networks, diversified growth is also targeted by Mondo in the following key areas:

- ***Negotiated and contracted infrastructure*** – The development of negotiated and contracted transmission and distribution connections and other infrastructure;
- ***Energy Services*** – Maintaining a metering business and the provision of asset intelligence solutions to customers predominantly within the utilities, government and telecommunications sectors while exploring an offering in the evolving distributed energy resources sector;
- ***Emerging energy markets*** – Seeking to commercially respond to changing customer behaviour and market opportunities arising from the increasing penetration of renewable energy supply through the provision of new services related to energy use, energy storage, energy efficiency and other niche services.

The AusNet Services Group assesses acquisition opportunities and other corporate transactions as they arise, along with pursuing opportunities for further organic growth in existing and related businesses.

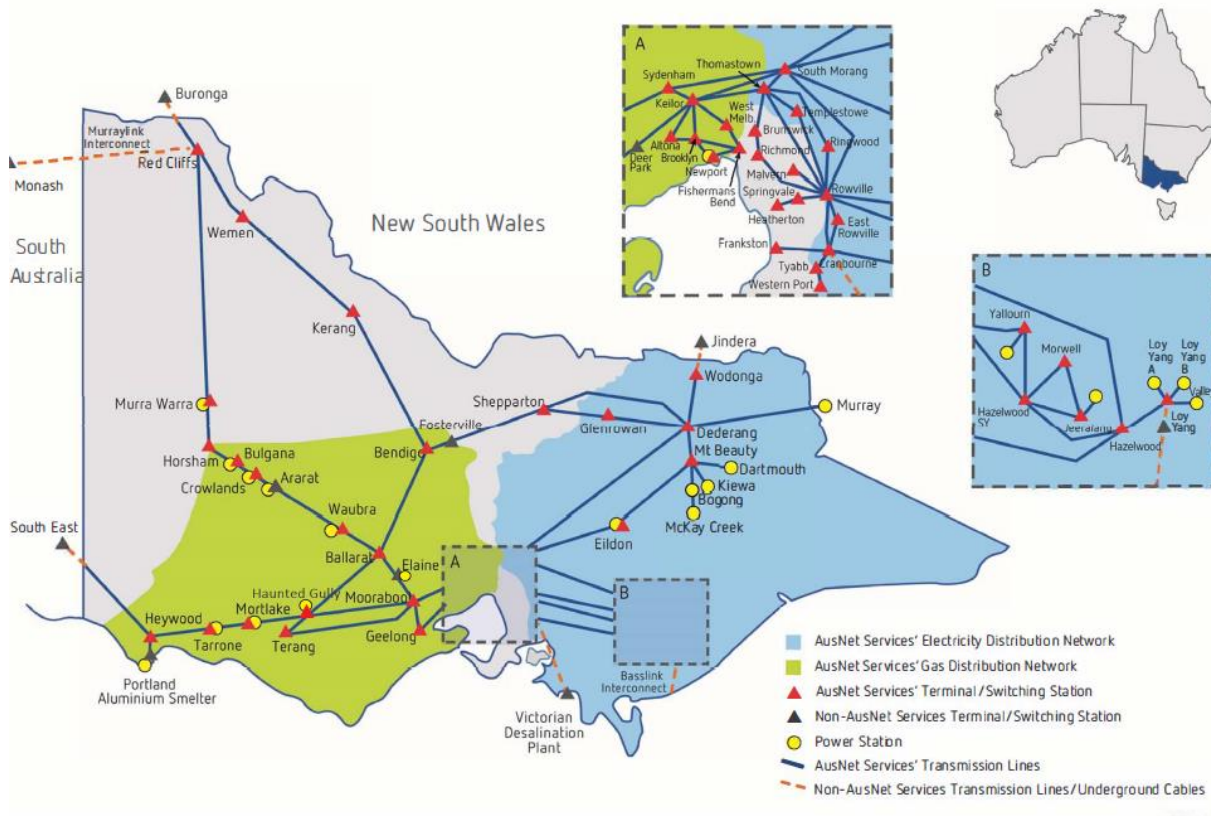
Divisional Overview

Victoria, where the majority of the AusNet Services Group's business and assets are located, is Australia's second most populous State with an estimated resident population as at 31 March 2019 of 6.6 million (26% of Australia's population), covering 227,600 square kilometres (87,800 square miles). While Victoria accounts for only 3% of Australia's land mass,

it is responsible for approximately 24% of Australia's economic activity. Victoria has a AAA (Outlook Stable)/Aaa (Outlook Stable) rating from Standard & Poor's and Moody's.

Electricity Transmission Network

The AusNet Services Group is the owner and manager of the AusNet Services Group's Electricity Transmission Network, which is the primary Victorian regulated electricity transmission network. The Victorian transmission network is centrally located amongst the five eastern States of Australia that form the NEM and provides key links between the electricity transmission networks of South Australia, NSW and Tasmania. The Victorian electricity transmission network is illustrated in the following diagram.



Source: AusNet Services Group

Note: Regulated transmission assets are the transmission assets in Victoria for which the AER is responsible for the economic regulation of revenues under chapter 6A of the NER. The diagram above also depicts non-regulated assets owned by AusNet Services.

The AusNet Services Group's Electricity Transmission Network consists of approximately 6,570 kilometres of transmission lines and carries electricity at extra-high voltages from generators to terminal stations around Victoria, where the voltage is lowered for the local distribution companies to deliver electricity to homes and businesses.

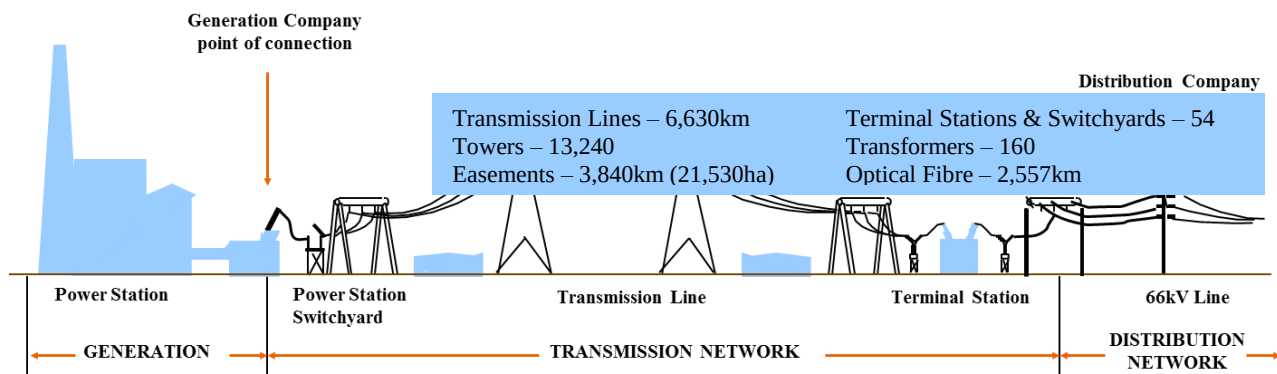
The AusNet Services Group is responsible for replacement of assets on its transmission network. The AEMO, generators and distribution businesses plan and direct network augmentation, with new transmission facilities and services open to contestability.

The AusNet Services Group typically owns its terminal stations and switchyard sites, but doesn't own the corridors of land on which the AusNet Services Group's lines are built. The AusNet Services Group has acquired on-going easements providing it the right to occupy those corridors of land with transmission lines. These easements provide access to the AusNet Services Group's field crews for network maintenance, and give the AusNet Services Group the authority to limit the activities that can take place on the land and to restrict what is grown or built on it.

The AusNet Services Group is undertaking asset replacement work and upgrades to several terminal stations, including a terminal station near Melbourne's central business district to improve reliability in the central business district and inner city areas.

The AusNet Services Group's Electricity Transmission Network is regulated by the AER. The AusNet Services Group 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 charges to the AEMO. The AusNet Services Group owns the transmission network and the right to provide transmission services throughout Victoria as provided for in its Electricity Transmission Licence. Charges for network augmentations to make new connections for generators are typically levied on these customers by the AusNet Services Group through negotiated agreements.

The following figure provides an overview of the AusNet Services Group's electricity transmission assets as at 30 September 2019 (network statistics are approximate). The AusNet Services Group owns the electricity transmission assets and is one of five electricity distributors in Victoria. It does not participate in electricity generation or in the retail electricity market.



Source: AusNet Services Group.

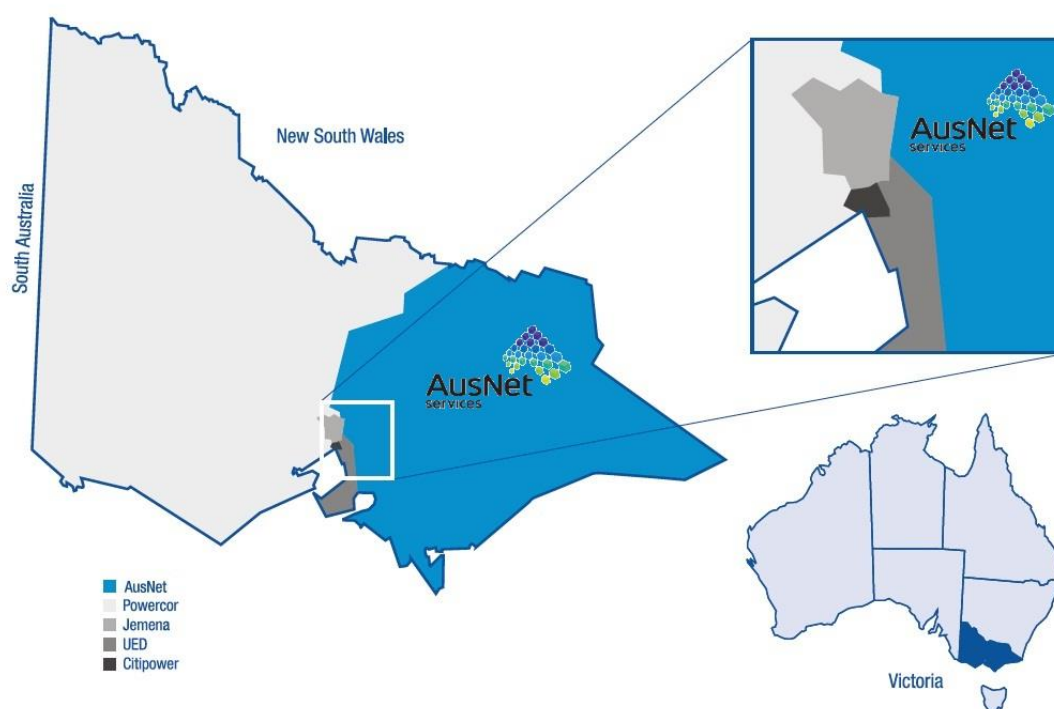
Electricity Distribution Network

As at 30 September 2019, the AusNet Services Group distributed electricity to approximately 748,000 customers. The AusNet Services Group's electricity distribution network spans over 80,000 square kilometres, covering eastern metropolitan Melbourne and eastern Victoria, and includes some of Melbourne's areas of expected population growth such as South Morang, Lilydale, Beaconsfield and Narre Warren on the outskirts of metropolitan Melbourne.

This distribution network transports electricity from the AusNet Services Group's high-voltage transmission grid to end users' points of supply with approximately 39,400 kilometres of overhead lines, approximately 14,200 kilometres of underground cable, approximately 65,300 distribution transformers and 58 zone substations.

The AusNet Services Group's electricity distribution network is regulated by the AER. The AusNet Services Group levies regulated DUoS on retailers whose customers use the AusNet Services Group's network. The AusNet Services Group owns the electricity distribution network and has rights to distribute or supply electricity within its licensed distribution area, which includes most of eastern Victoria. The AusNet Services Group is the only electricity distribution business licensed to operate in this area. The AusNet Services Group charges the same approved tariffs for electricity network usage regardless of which retailer sells the electricity to a customer in the AusNet Services Group's electricity distribution area. The following illustration shows the geographic coverage of the electricity distribution network.

Geographic Coverage of Electricity Distribution Network



Source: AusNet Services Group.

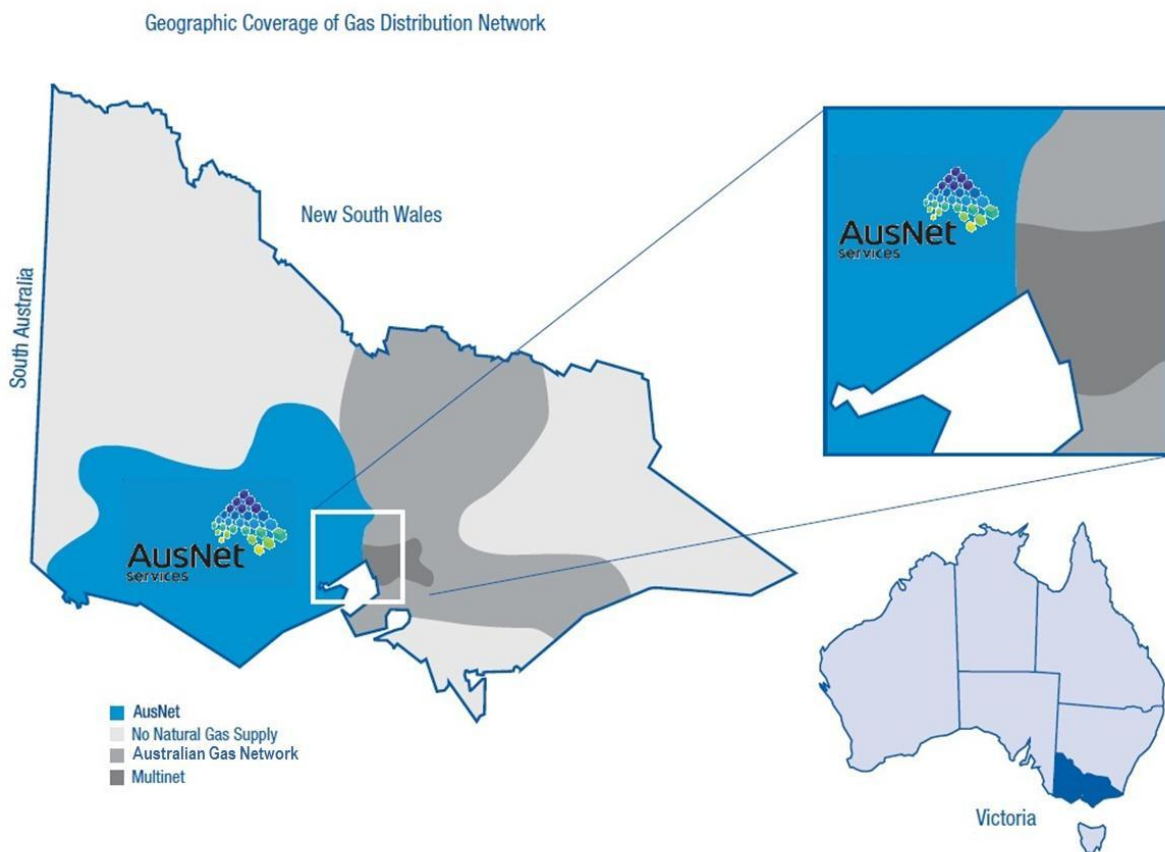
Gas Distribution Network

As at 30 September 2019, the AusNet Services Group distributed gas to approximately 722,500 consumers located in its distribution area located in central and western Victoria. The AusNet Services Group's gas distribution network consists of approximately 11,760 kilometres of distribution mains and 184 kilometres of transmission pipelines. The gas distribution network spans some of the significant areas of expected population growth in Melbourne and its surrounding areas.

The AusNet Services Group's gas distribution network's current access arrangement was approved by the AER and will remain in place until 31 December 2022⁸. The AusNet Services Group levies regulated DuoS charges to retailers and some large distribution customers that use the AusNet Services Group's network. The AusNet Services Group owns the gas distribution assets and the right to distribute gas within its distribution area. The AusNet Services Group 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.

⁸ The Victorian Government has notified AusNet Services of its intention to introduce legislation in early 2020 to extend the current regulatory control period for the current access arrangement period for gas by six months to 30 June 2023.

The following illustration shows the geographic coverage of the gas distribution network.



Source: AusNet Services Group.

Mondo

Mondo is responsible for AusNet Services' unregulated growth.

The Mondo brand was launched in December 2018. Prior to this, the Mondo business was known within the AusNet Services Group as Commercial Energy Services and was marketed to customers via the pre-existing brands of Mondo Power or Select Solutions. Since December 2018, all business lines have a united market presence under the Mondo brand.

This Mondo business is focused on:

- **Negotiated and contracted infrastructure** – The development of negotiated and contracted transmission and distribution connections and other infrastructure;
- **Energy Services** – Maintaining a metering business and the provision of asset intelligence solutions to customers predominantly within the utilities, government and telecommunications sectors while exploring an offering in the evolving distributed energy resources sector;
- **Emerging energy markets** – Seeking to commercially respond to changing customer behaviour and market opportunities arising from the increasing penetration of renewable energy supply through the provision of new services related to energy use, energy storage, energy efficiency and other niche services.

AusNet Services Group's Strengths

- **Essential Infrastructure** – As at 30 September 2019, the AusNet Services Group's transmission network comprised approximately 6,630 kilometres of transmission lines and approximately 13,240 towers, its electricity distribution network covered over 80,000 square kilometres and serviced approximately 748,000 consumers and its gas distribution network covered over 60,000 square kilometres and serviced approximately 722,500

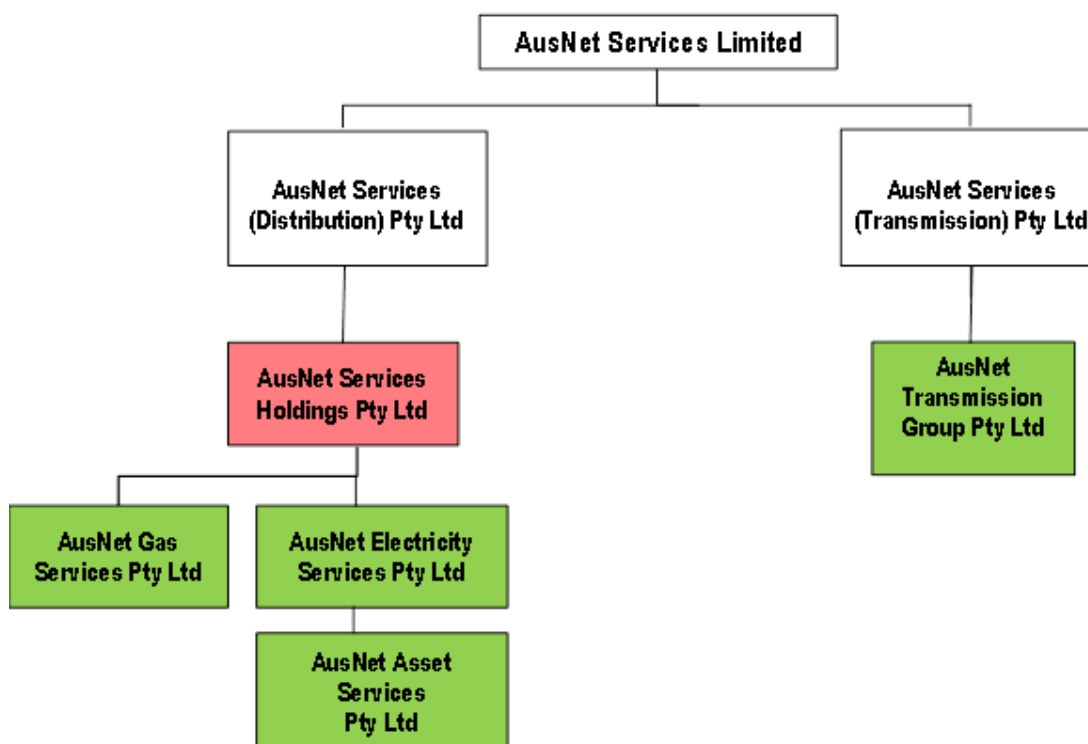
consumers. Together these transmission and distribution assets represent essential infrastructure in Victoria, with the AusNet Services Group being the sole provider of electricity distribution and covered gas distribution services in eastern and western Victoria, respectively. In addition, the AusNet Services Group's networks are capital intensive and difficult to replicate and, as a result of these high barriers to entry, they operate as regulated natural monopolies.

- **Regulated Cash Flows** – The electricity transmission, electricity distribution and gas distribution assets provide regulated, largely predictable cash flows. A total of 85% of the AusNet Services Group's consolidated revenues for the financial year ended 31 March 2019 were regulated, all of which were protected from the risk of increases in inflation. Of these amounts, revenues from the AusNet Services Group's electricity transmission business (which amounted to 33% of total consolidated revenue) were not exposed to volume risk. The electricity distribution network is now regulated by a revenue cap commencing from the 2016-2020 regulatory control period, further reducing volume risk. Further, these networks have staggered regulatory reset periods, which reduces earnings volatility, reflected in the AusNet Services Group's historical cash flows being relatively steady, and allows the AusNet Services Group to better manage its financial strategies.
- **Strong Credit Metrics and Diversified Funding Sources** – The AusNet Services Group has established a set of guidelines which target various credit metrics that it considers to be consistent with its policy of maintaining a standalone credit rating of "A-/A3" or above from Standard & Poor's and Moody's. In addition, the AusNet Services Group has a well diversified debt portfolio, both in terms of maturity and sources of debt. As part of its capital management tools, AusNet Services has also:
 - Issued a 200 million, 60.5-year Singapore dollar and a 375 million, 60-year U.S. dollar hybrid security in the form of non-convertible subordinated notes which raised A\$200 million and A\$506 million, respectively;
 - Raised equity through its DRP and through pro rata entitlement offerings in 2009 and 2012, which raised A\$408.4 million and A\$434.4 million, respectively; and
 - For the financial year ended 31 March 2010, it also cut distributions to security holders to eight cents per security, which represented a 32.5% reduction from the financial year ended 31 March 2009.
- **Organic Growth** – The AusNet Services Group's distribution assets are situated in areas of expected population growth in Melbourne and its surrounding areas, contributing to increased connection growth. Continued expenditure on bushfire mitigation and asset replacement on the electricity distribution network will also underpin growth in coming years. In addition, there are opportunities for the AusNet Services Group, through Mondo, to bid for the contestable parts of new transmission connections for new generation (including gas, wind and solar) and load connections to the transmission network (including resources and major industrial projects). Mondo is also exploring growth opportunities in the developing distributed energy resources sector; whilst ensuring its metering and asset intelligence functions continue to provide valuable services to the AusNet Services Group and external customers, primarily in the essential infrastructure sectors.
- **Management Expertise** – The AusNet Services Group's management team has significant experience in operating and managing the AusNet Services Group's business, including extensive experience with Australian regulatory reset processes.
- **Diversified RAB** – The AusNet Services Group's regulated asset portfolio is diversified across transmission and distribution assets as well as electricity and gas assets, which, along with the related diversification of regulatory outcomes, provides for more stable cash flows.

Structure of the AusNet Services Group

AusNet Services was publicly listed on the ASX, with a secondary listing on the SGX-ST, in June 2015 (ASX code: AST and SGX code: AUSNET SERVICES (AZLSI)). AusNet Services elected to be de-registered from the SGX, which was made effective on 16 July 2018. Refer "Business of the AusNet Services Group - Key Events in the Development of the AusNet Services Group".

The structure of the AusNet Services Group consists of AusNet Services and its Subsidiaries, is summarised in the following chart. The Issuer is shown in the colour red and the Guarantors are shown in the colour green. The chart does not show AusNet Services Finance Trust, Mondo Power Pty Ltd, several intermediate holding companies and some minor subsidiaries with no substantial assets.



Source: AusNet Services Group

Notes:

- (1) AusNet Services Finance Trust, Mondo Power Pty Ltd, several intermediate holding companies and some minor subsidiaries with no substantial assets are not shown in the chart.
- (2) AusNet Finance Pty Ltd (“**AusNet Finance**”) was released as a Guarantor effective 11 January 2018, in preparation for deregistration of this company, which occurred on 28 August 2019. The AusNet Services Group has simplified its legal corporate structure by removing redundant corporate entities, including AusNet Finance. AusNet Finance was originally established as the financing vehicle for the transmission business. Following the maturity of certain legacy transactions under AusNet Finance, and the establishment of the Issuer as the common funding vehicle, AusNet Finance is no longer utilised.

A subsidiary of AusNet Services Transmission operates the AusNet Services Group’s electricity transmission business, and subsidiaries of AusNet Services Distribution operate the AusNet Services Group’s electricity and gas distribution businesses.

Relationship between the AusNet Services Group, Singapore Power Limited and State Grid Corporation of China

As at the date of this Offering Circular, SPI holds 31.1% of the issued shares in AusNet Services and SGIAD holds 19.9% of the issued shares in AusNet Services. As at the date of this Offering Circular, SPI is wholly owned by Singapore Power Limited and SGIAD is wholly owned by State Grid Corporation of China.

Key Events in the Development of the AusNet Services Group

As part of the deregulation and privatisation of the Victorian electricity and gas industries, GPU Electric, Inc. purchased the electricity transmission business now owned and operated by the AusNet Services Group from the Victorian State Government, and TXU Corp purchased the electricity and gas distribution businesses now owned and operated by the AusNet Services Group. Singapore Power Limited acquired the transmission business from GPU Electric, Inc. in 2000, and acquired TXU Corp’s electricity and gas businesses in Australia, comprising the electricity and gas distribution businesses now owned and operated by the AusNet Services Group and the merchant energy business consisting of TXU Corp’s electricity generation, electricity and gas retail businesses and interest in the SEAGas gas pipeline (“**MEB**”).

Singapore Power Limited completed the sale of the MEB to CLP Power Australia Energy Holdings Pty Ltd between May 2005 and August 2005, retaining the electricity and gas distribution businesses now owned and operated by the AusNet Services Group.

The key events in the development of the AusNet Services Group are set out below.

- **December 1995:** U.S.-based TXU Corp purchased the electricity distribution and retail business, Eastern Energy, from the Victorian State Government
- **November 1997:** U.S.-based GPU Electric, Inc. acquired Victorian electricity transmission business, PowerNet Victoria, from the Victorian State Government
- **February 1999:** TXU Corp acquired the gas distribution and retail businesses, Westar and Kinetic Energy, respectively, from the Victorian State Government
- **June 2000:** SPI acquired the Victorian electricity transmission business, GPU PowerNet, from GPU Electric, Inc.
- **July 2004:** Singapore Power acquired the electricity and gas distribution businesses and MEB that were then owned by TXU Corp
- **May/August 2005:** Singapore Power divested MEB, retaining the Victorian gas and electricity distribution businesses that had previously been owned by TXU Corp
- **June 2005:** Launch of SP AusNet brand
- **December 2005:** Initial Public Offering of the Stapled Entities with primary listing on the ASX and secondary listing on the SGX-ST
- **October 2008:** Stapled Entities established the DRP. The DRP has operated at interim and final distribution and/or dividend payment since its inception, other than for the final dividend for FY2018, as AusNet Services Group was in the process of delisting from the SGX-ST
- **May/June 2009:** The Stapled Entities raised A\$408 million under an accelerated non-renounceable pro-rata entitlement offer and cut distributions by 32.5%
- **May/June 2012:** The Stapled Entities raised A\$434 million under an accelerated non-renounceable pro-rata entitlement offer
- **December 2012:** The AusNet Services Group enters into agreements to operate and maintain the Victorian Desalination Project's electricity line
- **January 2014:** SGIAD (a subsidiary of State Grid Corporation of China) acquired a 19.9% stapled securityholding in the Stapled Entities from SPI
- **March 2014:** The AusNet Services Group terminated the Management Services Agreement with SPI Management Services, under which management services were provided by SPI Management Services (a wholly owned subsidiary of SPI) to the AusNet Services Group
- **August 2014:** SP AusNet Group renamed and rebranded to AusNet Services Group
- **June 2015:** AusNet Services completed a corporate restructure under which the Stapled Entities became wholly owned by a new listed entity, AusNet Services
- **March 2016:** AusNet Services issued a 200 million, 60-year Singapore dollar and a 375 million, U.S. dollar hybrid security in the form of non-convertible subordinated notes which raised A\$200 million and A\$506 million, respectively.
- **July 2018:** AusNet Services was de-registered from the SGX

- **December 2018:** Two subsidiaries of AusNet Services, Geomatic Technologies Pty Ltd and Select Solutions Pty Ltd were brought within the one subsidiary entity, Mondo Power Pty Ltd, and re-branded as Mondo.

Sources and Uses of Liquidity

The AusNet Services Group established a common funding vehicle in 2007 and all financing is undertaken through this entity.

AusNet Services Group established a DRP in October 2008. It has operated at each interim and final distribution or dividend payment since its establishment, except for the final dividend for FY2018 as AusNet Services Group was in the process of delisting from the SGX-ST.

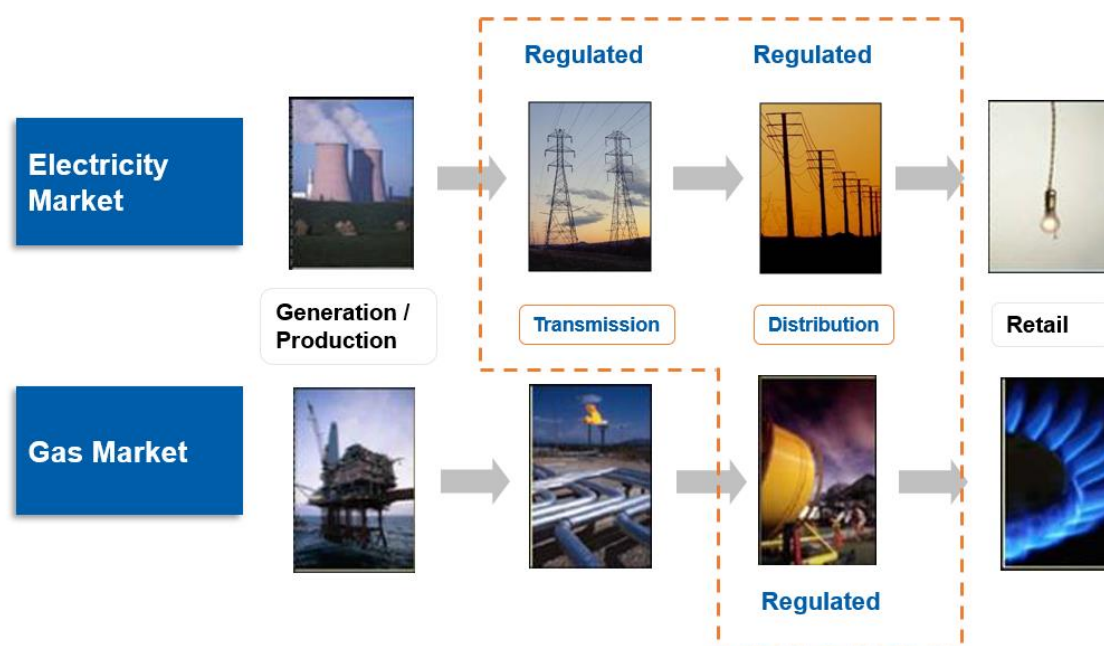
An interim dividend for 2019/2020 financial year of A\$188.2 million (5.10 cents per share) was paid on 19 December 2019 and the DRP of AusNet Services was in operation for that dividend. Participation in the DRP is voluntary and eligible shareholders may elect to participate in respect of all or part of their holding.

Refer to “Business of the AusNet Services Group – Structure of the AusNet Services Group” for a summary of the structure of AusNet Services and its Subsidiaries. The figure represents how the Issuer is utilised as the common funding vehicle for the AusNet Services Group and all of its subsidiaries.

Business Discussion

The following diagram shows the industry segments in which the AusNet Services Group operates.

Australian Energy Market Structure



AusNet Services operates in the regulated transmission and distribution sectors

Source: AusNet Services Group.

Electricity Transmission Network

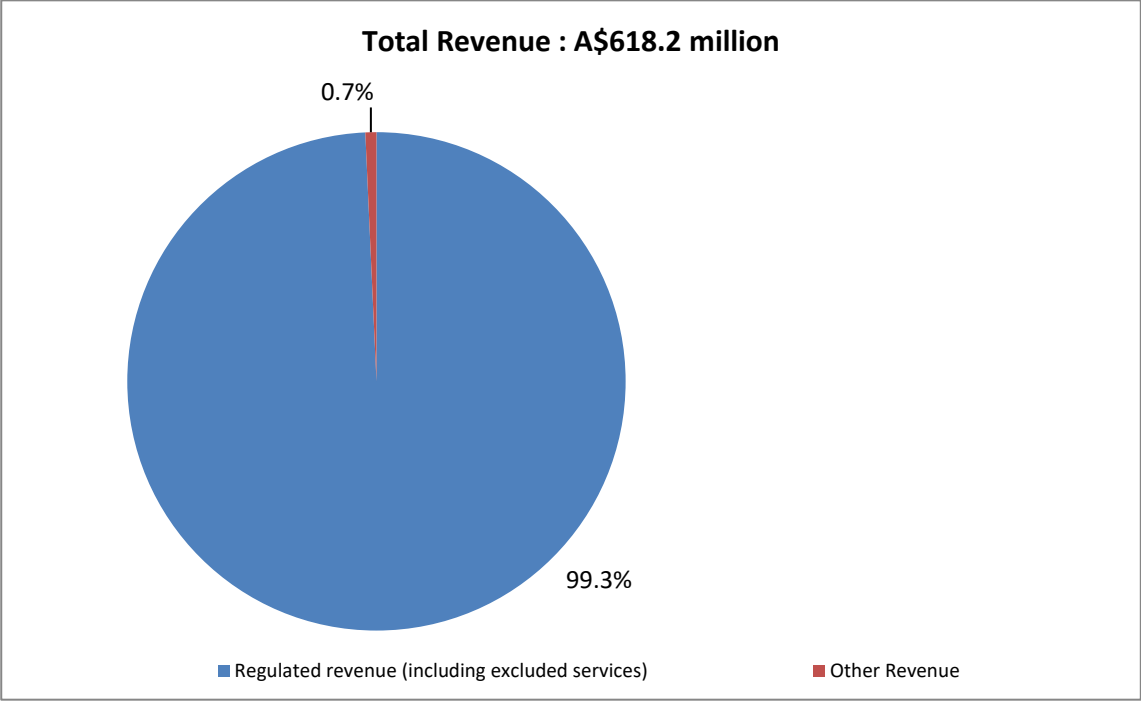
Electricity Transmission Revenue Profile

The electricity transmission business earns network charges and connection charges equal to an annual, regulated, fixed amount (i.e. not dependent upon the actual volume of electricity transmitted), and also earns network availability, reliability and market impact incentive payments. The network charges and connection charges, which together represent

97.3% of the AusNet Services Group’s electricity transmission revenue for the year ended 31 March 2019, are subject to a cap set by the AER based in part on the RAB of the electricity transmission business.

Note that prior to AusNet Services’ operating model review in October 2016, the electricity transmission business had revenue relating to unregulated infrastructure services. This revenue is now part of Mondo.

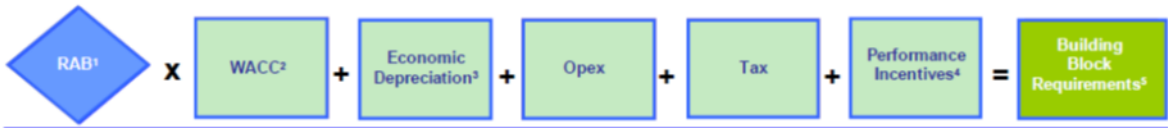
As shown below, the AusNet Services Group’s electricity transmission revenues for the year ended 31 March 2019 comprise the following:



Source: AusNet Services Group.

Electricity Transmission Revenue Building Blocks

The electricity transmission revenue regulatory framework uses a building block approach to provide the electricity transmission company with a revenue stream to cover forecast costs and depreciation over the regulatory period. This may include an efficiency allowance to reward expenditure savings achieved in the previous period if regulatory benchmarks are outperformed. This is illustrated below.



Source: AusNet Services Group.

Notes:

- (1) Regulated Asset Base, as determined by the AER, which is indexed annually to protect the business from inflation risk.
- (2) Weighted Average Cost of Capital, as determined by the AER.
- (3) Economic Depreciation is calculated by subtracting the RAB indexation from the straight line depreciation.
- (4) Performance incentives include glidepath payments which reward expenditure savings achieved in the previous period.

- (5) The forecast building block requirement for each year of the regulatory period is then smoothed using the (CPI-X) factor which also provides protection from inflation risk. The resulting forecast revenue path is referred to as the Maximum Allowable Revenue (“**MAR**”). Actual revenue will differ from the forecast MAR due to actual inflation and adjustments for service standards performance incentives and penalties.

Electricity transmission network charges derived using the building block approach are spread over the five-year 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.

The AER’s final decision regarding the Transmission Revenue Reset (“**TRR**”) for 2017/18 to 2021/22 was published on 28 April 2017.

In the final decision, the AER approved higher levels of capital and operating expenditure for the AusNet Services Group, compared to its draft decision issued in July 2016.

Overview of outcomes

The final decision allows for the following revenues under the building block approach:

	Year ending 31 March						
	2017/18	2018/19	2019/20	2020/21	2021/22	Total	Average
	<i>(A\$, in millions, nominal)</i>						
Operating Costs	232.4	238.5	244.8	251.2	257.8	1,224.7	244.9
Return on Assets	183.9	189.4	193.0	196.1	197.9	960.4	192.1
Regulatory Depreciation	96.7	99.0	106.7	110.2	93.3	505.9	101.2
Cost of Tax	13.2	10.6	12.4	14.0	9.2	59.5	11.9
Efficiency Carryover	-0.2	-0.2	-0.3	-1.8	-5.4	-7.9	-1.6
Total Revenue (unsmoothed)	526.1	537.3	556.6	569.7	552.9	2,742.6	548.5
X factor	1.11%	1.08%	1.18%	1.12%	1.12%	n/a	n/a
Total Revenue (smoothed)	534.8	541.7	548.1	555.0	561.9	2,741.4	548.3

Source: AER, Final Decision AusNet Services Group Transmission Determination 2017/18 to 2021/22, Updates – Return on Debt for 2019-20

WACC parameters

The final decision provides for a WACC of 5.80% (in nominal, after tax terms). Ten percent of the return on debt will be updated annually, to incorporate prevailing rates.

	2014/15 to 2016/17	2017/18 to 2021/22
	Final Decision	
Parameter		
Cost of Debt	6.79 %	4.94 %
Beta.....	0.8	0.7
Gamma	0.65	0.40

	2014/15 to 2016/17	2017/18 to 2021/22
	Final Decision	
Market risk premium	6.50 %	6.50 %
Nominal Vanilla WACC.....	7.87 %	5.80 %
Return on Equity	9.51 %	7.10 %

Electricity Transmission Regulated Revenue

Regulated transmission revenue is made up of shared network charges, connection charges and incentive payments.

Network charges and the Network Agreement

The AusNet Services Group charges the AEMO for the use of the transmission network through the network charge. This is a fixed monthly charge determined in accordance with the NER from the revenue established by the AER in its last revenue cap determination. In turn, the AEMO charges distributors of electricity for use of the transmission network through TUoS charges, which vary depending on usage, although the AusNet Services Group also sells connection services directly to industry participants under separate connection agreements. The AEMO manages the variation between these revenues and the fixed charge applied by the AusNet Services Group through a subsequent reconciliation process with the distributors. These charges apply to the entire network that transfers power from generators to distributors and includes all transmission lines and major terminal stations. The Network Agreement establishes the services and the applicable commercial terms and conditions.

The AusNet Services Group is remunerated for provision of the network services on a basis consistent with the revenue determined by the AER, applying pricing principles established in Chapter 6A of the NER. The network performance incentive schemes reward the AusNet Services Group for good network availability and performance. As of 1 April 2016, the Network Agreement reflects the closure of AEMO's availability incentive scheme for regulated services, but it remains in place for unregulated services.

The AusNet Services Group's liability to the AEMO for negligence, breach of contract or otherwise is limited to A\$5 million under the Network Agreement, except where the loss arises due to a wilful breach or failure of facilities while being operated within certain capabilities and ratings or actions taken by the AEMO to keep certain aspects within their capabilities and ratings. The Network Agreement has no expiry date, but it may be terminated under certain conditions, such as extended force majeure or financial default.

Connection Charges

The AusNet Services Group charges electricity distributors and generators for the use of connection assets. Connection assets are those assets that are dedicated to the connection of the distributors and generators to the transmission network. The connection charges payable by generators and distributors, and the services provided by the AusNet Services Group, are governed by individual connection agreements with each party and the charging principles established by the NER.

Excluded Prescribed Services

Excluded services represent returns on capital expenditure for electricity transmission customer works including all augmentation works. At the commencement of subsequent regulatory control periods some of these services, notably connection services to electricity distributors and non-contestable shared network services provided to the AEMO, convert to regulated services by asset roll-in to the RAB.

Electricity Transmission Other Revenue

The AusNet Services Group's network of transmission towers can be used as telecommunications antenna sites. The AusNet Services Group licences access to its infrastructure for third parties' equipment.

The AusNet Services Group's transmission network also supports optical fibre, allowing the AusNet Services Group to license access to use of dark fibre and bandwidth access networks.

Victorian Desalination Project's Electricity Line

In December 2012, the AusNet Services Group entered into a 27 year licence agreement with the Victorian State Government for the right to operate and maintain the 87 kilometre high voltage alternating current underground transmission line supplying electricity to the Victorian Desalination Plant in Wonthaggi.

Under the agreement, the AusNet Services Group paid the 27 annual licence charges to the Victorian State Government upfront in a single licence payment of A\$235 million on 21 December 2012.

At the same time, the AusNet Services Group also entered into a 27 year agreement with the desalination plant operator, AquaSure Pty Ltd, for the AusNet Services Group to operate and maintain the transmission line in return for an annual revenue payment.

Electricity Transmission Network Condition and Life

Management of the transmission network is in accordance with the AusNet Services Group's ESMS, a mandatory obligation under the Electricity Safety Act 1998 (Vic).

The ESMS is a risk based management system that includes the maintenance of the AusNet Services Group's asset management strategy ("**Asset Management Strategy**"), standards, plans, programmes and performance monitoring systems to ensure the safe operation and security of the network over its full asset life cycle. In addition to internal compliance monitoring, the technical regulator, Energy Safe Victoria ("**ESV**"), undertakes regular audits to monitor compliance.

The Asset Management Strategy, incorporating individual plant and equipment strategies, provide asset condition and remaining life profiles that support revenue submissions to the AER for replacement and maintenance of the network. The AER undertakes benchmarking against other transmission businesses to validate asset life cycle, replacement and maintenance requirements.

The ESMS is an integral element of the AusNet Services Group Asset Management System ("**AMS**"). The AMS is certified to ISO 55001, the standard for Asset Management. The AMS focuses on low life cycle costs, enhancing network safety and performance and optimising capital and operating expenditures.

Electricity Transmission Network Growth

The AusNet Services Group does not plan transmission augmentation projects because, in the Victorian market model, this is the function of the AEMO, distributors and generators. However, while the AusNet Services Group is unable to augment the shared transmission network without a request from the AEMO, a generator or a distributor; new transmission projects and network interface works are sometimes awarded to the AusNet Services Group on a non-contestable basis, which assists in the further expansion of the AusNet Services Group's transmission network. AEMO and the electricity distributors forecast peak load growth in the growth corridors and the need for increased capacity in these parts of the network will require the AusNet Services Group to continue to invest in the transmission network.

Electricity Transmission Network Performance

The Transmission System Minutes is a measure used by the AusNet Services Group to track the loss of supply to its transmission customers caused by the transmission system. "One System Minute" is the loss of the total Transmission System Maximum Demand for one minute. The Transmission System Maximum Demand is the maximum amount of aggregated electricity demand recorded at entry points to the AusNet Services Group's transmission network and interconnection points at any time previously.

The service target performance incentive scheme ("**STPIS**") by the AER provides a financial incentive to transmission network services providers ("**TNSPs**") to maintain and improve service performance.

The service component provides a reward/penalty of +/- 1.25 per cent of MAR to improve network reliability, by focussing on unplanned outages. The service component is designed to encourage TNSPs to seek to reduce the number of unplanned network outages and to promptly restore the network in the event of unplanned outages that result in supply interruptions.

AusNet Services has been rewarded with additional revenue as a result of satisfactory service performance over the past several years since the AER STPIS has been in place.

	Year Ending 31 December					
	2018	2017	2016	2015	2014	2013
Transmission System Minutes	0.091	0.022	9.16	6.588	0.585	1.183
Transmission network AER STPIS service component reward	84.19%	81.70%	31.5%	11%	42%	67.4%

Source: AusNet Services Group.

In 2015, 6.588 Transmission System Minutes were incurred due to one significant system incident which affected supply to a single customer for 6.5 Transmission System Minutes.

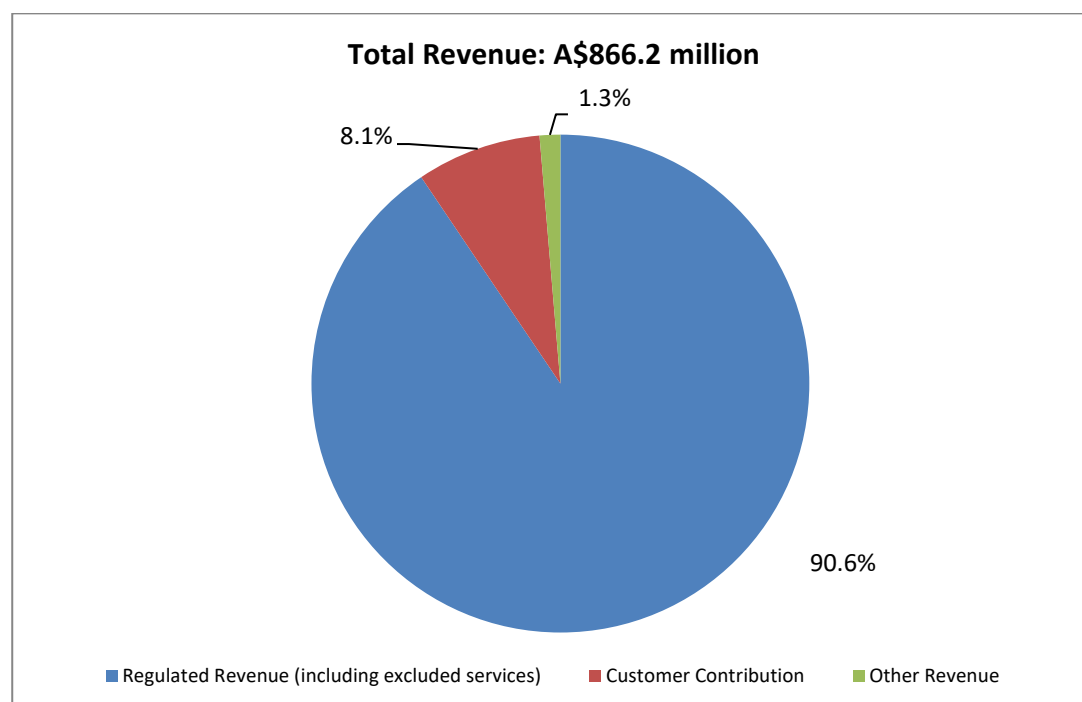
In 2016, 9.16 Transmission System Minutes were incurred due to one significant system incident which affected supply to a single customer for 9.01 Transmission System Minutes.

Electricity Distribution Network

Electricity Distribution Revenue Profile

For the financial year ended 31 March 2019, 90.6% of the AusNet Services Group's electricity distribution revenues were derived from regulated approved network prices, including AMI. The remaining electricity distribution revenues came from customer contributions to capital works and other distribution-related revenue.

The chart below provides a summary of the AusNet Services Group's electricity distribution revenues for the financial year ended 31 March 2019. Each of these components of the AusNet Services Group's distribution revenues is discussed in greater detail below.



Source: AusNet Services Group.

Electricity Distribution Regulated Revenue

The AusNet Services Group charges retailers and some large customers regulated rates for DUoS charges. These rates are adjusted each year in accordance with price controls established by the regulator every five years. Regulatory responsibility transferred from the ESC to the AER in January 2009.

The amount of electricity network revenue charged to each retailer is based on the actual amount of electricity used by the retailer's end-user customers. The distribution revenue regulation framework uses a building block approach to cover forecast costs and depreciation over the regulatory period. This is illustrated below.



Source: AusNet Services Group.

Notes:

- (1) RAB, as determined by the AER, it is indexed annually by inflation to protect the business from inflation risk.
- (2) WACC, as determined by the AER.
- (3) Economic Depreciation is calculated by subtracting the RAB indexation from the straight line depreciation.
- (4) Performance incentives include efficiency carry-over amounts to reward operational expenditure savings achieved in the previous period, and S factor amounts to reward or penalise service standard performance.
- (5) The annual revenue requirement for each year of the regulatory period is then smoothed using the (CPI-X) factor. The resulting forecast revenue path is referred to as expected revenue.
- (6) Actual revenue will differ from the expected revenue due to actual inflation and service standards performance incentives and penalties.

Previously for the electricity distribution network, the prices per volume of electricity distributed were regulated, with actual revenue subject to the volume of electricity distributed. By contrast, for the transmission network, total revenues are set by the regulator and revenues are not subject to actual electricity consumption. The pricing regime left the business with some exposure to revenue fluctuations due to volatility in volume demand. The new determination applicable to the current 2016-2020 regulatory period applies a revenue cap to the distribution business, thus removing volume risk.

As per the Rate of Return Guideline, 10% of the cost of debt is updated annually to incorporate prevailing rates.

AusNet Services has lodged three contingent project applications with the AER for the REFCL programme, with its most recent final determination being made on 3 October 2019.

Target electricity revenue, as published by the AER in October 2019 for 2016-20 is illustrated below. This incorporates the AER's decision in respect of the three contingent projects and the updated cost of debt to include 2017, 2018 and 2019 prevailing rates.

	Year Ended 31 December				
	2016	2017	2018	2019	2020
	(A\$, in millions)				
Return on capital ⁽¹⁾	217.3	230.9	251.2	268.2	284.0
Depreciation	103.80	87.6	92.9	96.6	105.6
Operating costs allowance	230.4	240.2	251.8	262.7	275.1
Efficiency carry over	5.3	-6.4	-3.6	16.2	0.1
Tax allowance	33.2	26.9	27.5	28.9	28.3
Total building block revenue	589.0	579.3	619.8	672.6	693.1
Total building block revenue (smoothed) ⁽²⁾	586.0	597.9	623.0	656.9	687.6

Source: AER, AusNet Electricity Services Pty Ltd Distribution Determination Update – Return on Debt for 2020

Notes:

- (1) Return on capital is calculated by multiplying the RAB by the WACC (post tax nominal) as determined by the AER.
- (2) A revenue smoothing (CPI-X) factor is applied to the unadjusted revenue path by AER. Negative values for X indicate real price increases under the CPI-X formula.

AusNet Services lodged an appeal for merits review with the ACT on the final EDPR 2016-20 determination in June 2016. Hearings for the merits review appeal commenced in November 2016 addressing gamma, self- insurance and cost of debt measurement. AusNet Services also lodged an application for judicial review with the Federal Court on the same grounds, and this process is stayed until the merits review process is complete. In July 2017, AusNet Services withdrew its grounds for review of gamma, in both the ACT and judicial review cases. On 17 October 2017, the ACT handed down its decision, upholding the AER's determination in respect of self-insurance and the cost of debt measurement.

Advanced Metering Infrastructure Revenues

In 2006, the Victorian State Government mandated the rollout of AMI to all Victorian electricity consumers taking supply of less than 160 MWh per annum. To meet this obligation the AusNet Services Group must deploy and maintain the key infrastructure elements of the AMI programme.

The AMI CROIC legislates the cost recovery of regulated services supplied from 2009 to 2015 (including transitional arrangements for 2006 through 2008 AMI related expenditures) and contains two budget periods: 2009 to 2011 and 2012 to 2015 for expenditure approval purposes and two WACC periods: 2009 to 2013 and 2014 to 2015 for setting the WACC parameters. In general, the cost recovery regulatory framework has changed from incentive-based control to a cost "pass-through" building block approach with a series of supporting "Regulatory Principles", specified in the AMI CROIC. In order to ensure the cost "pass-through" principle the AMI CROIC defines an annual true up process to ensure that the present value of the actual annual building block revenue equates to the present value of the actual tariff revenue for the same period. The AER is the economic regulator of this activity.

On 30 June 2015, the Victorian State Government gazetted amendments to the AMI CROIC which require the charges applications for both calendar years 2014 and 2015 (the "**Transition Charges Application**") to be submitted between 30 April and 31 May 2016 as a single application. The AER is required to make and publish a draft determination on the charges application and consult with the public before publishing a final determination by 16 December 2016.

From 1 January 2016, metering services are no longer regulated under the AMI CROIC but rather the NEL and NER as Alternative Control Services with a revenue cap. Metering charges from 1 January 2016 were based on the EDPR preliminary decision. The AusNet Services Group submitted a revised electricity distribution regulatory proposal on 6 January 2016 and the AER made its final decision on 26 May 2016 which sets out the following revenue profile:

	Year Ending 31 December				
	2020	2019	2018	2017	2016
	(A\$, in millions)				
Return on capital ⁽¹⁾	15.4	17.2	19.7	22.0	23.9
Regulatory depreciation	25.3	35.9	46.7	44.1	41.1
Operating expenditure	17.3	18.1	21.2	21.7	22.4
Annual revenue requirements ⁽²⁾	57.9	71.2	87.5	87.9	87.4
Expected revenues ⁽²⁾⁽³⁾	57.9	67.8	79.4	92.9	92.8
Forecast CPI (percent)	2.32	2.32	2.32	2.32	2.32
X factors (percent)	16.50	16.50	16.50	2.14	43.36

Source: AER, AusNet Electricity Services Pty Ltd Electricity Distribution Final Decision 2016 to 2020.

Notes:

- (1) Return on capital is calculated by multiplying the RAB by the WACC (post tax nominal) as determined by the AER.
- (2) The final decision on the Transition Charges Application to be released on 16 December 2016 will reduce the annual revenue requirements and expected revenues from 2018.

- (3) A revenue smoothing (CPI-X) factor is applied to the unadjusted revenue path by AER. Negative values for X indicate real price increases under the CPI-X formula.

AusNet Services submitted the Transition Charges Application to the AER on 31 May 2016 which applied for the approval of A\$96.7 million of the A\$165.9 million excess expenditure incurred in calendar years 2014 and 2015. The AER released its Draft Decision on the Transition Charges Application on 20 September 2016, approving A\$46.2 million of the A\$96.7 million excess expenditure applied by AusNet Services. The Draft Decision resulted in a negative transition charge of A\$62.1 million to be applied to the 2018 annual revenue.

On 2 November 2016, AusNet Services made a submission to the AER on the Transition Charges Application Draft Decision. In the submission, AusNet Services applied for the approval of A\$86.9 million of the A\$165.9 million excess expenditure incurred in calendar years 2014 and 2015. AusNet Services also proposed to smooth the revenue adjustment from the 2018 to 2020 calendar years, instead of only in the 2018 calendar year based on the Draft Decision. The Final Decision on the Transition Charges Application was released by the AER on 16 December 2016 which approved A\$53.4 million of the A\$86.9 million excess expenditure applied by AusNet Services. The Final Decision resulted in a negative transition charge of A\$52.4 million (\$2018) to be smoothed from the 2018 to 2020 calendar years, impacting the annual revenue requirements and expected revenues shown in the above table. In November 2017, the AER approved a negative revenue adjustment of A\$27.0 million for the 2018 calendar year. For the 2019 and 2020 calendar years, negative revenue adjustments of A\$16.9 million and A\$10.5 million respectively were approved via the AER's annual tariff approval process.

Electricity Distribution Customer Contributions

Customers are required to contribute to the cost of their connection should the cost of connection exceed the expected incremental revenue the customer will contribute. The cost of assets built for customers is included in the RAB net of the contribution made by the customer. Customer contributions are included in as a separate section of revenue on the AusNet Services Group's income statement.

Alternative Control, Ancillary and Negotiated Services

The AusNet Services Group charges fees for other distribution services, including standard connection services, field officer visits, service truck visits and public lighting. These services are defined as Alternative Control Services under the NER. Under the Final Decision on the EDPR 2016-20 a price path has been determined that allows these prices to be adjusted each year by an amount equal to the annual CPI-X.

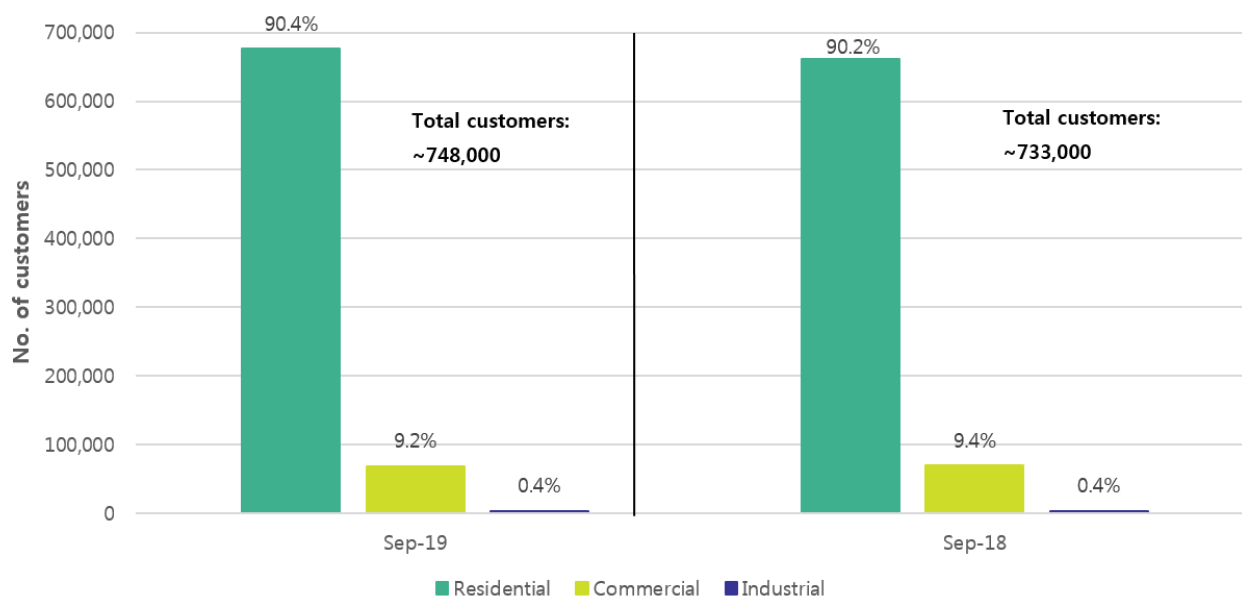
Electricity Distribution Other Revenue

Other revenue generated by the electricity distribution business mainly relates to minor charges to other distribution businesses for shared use of assets and embedded generator connection fees.

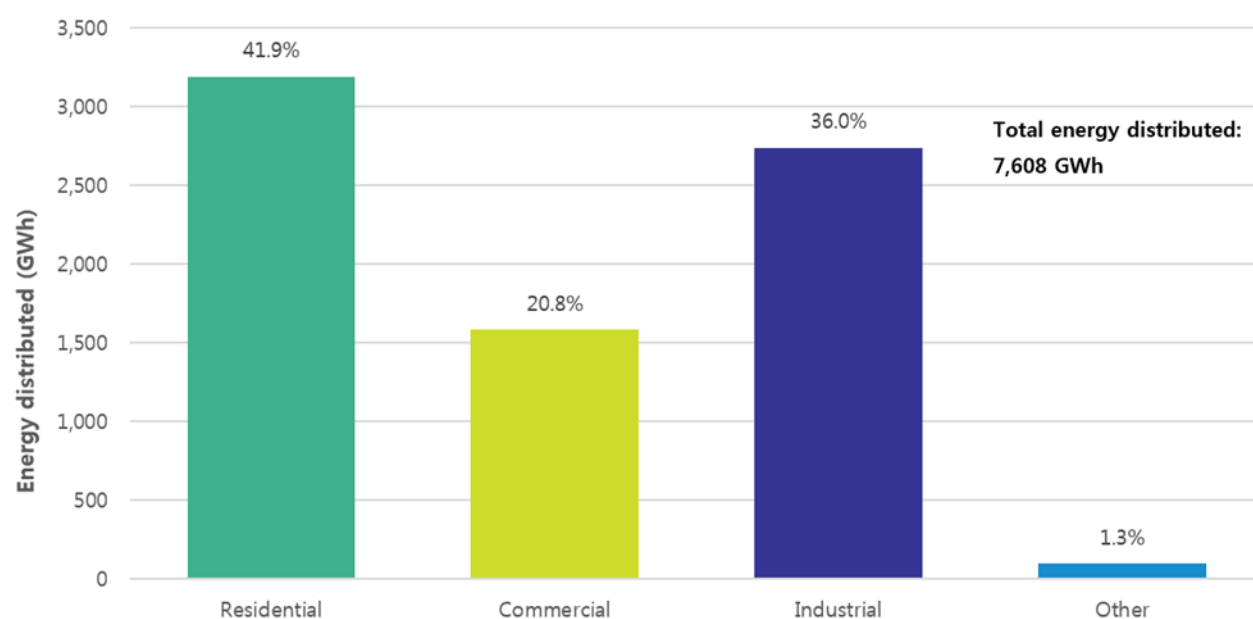
Electricity Distribution Customers

For the financial year ended 31 March 2019, the AusNet Services Group's five largest electricity retailer customers accounted for 69% of the AusNet Services Group's total electricity distribution network and excluded revenues. The charts below provide an overview of the AusNet Services Group's customer numbers as at 30 September 2019 and 30 September 2018 and energy usage for the year ended 31 March 2019, respectively.

Electricity distribution customer numbers: September 2019 versus September 2018



Energy distributed for the year ended 31 March 2019



Source: AusNet Services Group.

Electricity Distribution Network Condition and Life

Management of the distribution network is in accordance with AusNet Services' ESMS, a mandatory obligation under the Electricity Safety Act 1998 (Vic).

The ESMS is a risk based management system that includes the maintenance of Asset Management Strategy, standards, plans, programmes and performance monitoring systems to ensure the safe operation and security of the network over its full asset life cycle. In addition to internal compliance monitoring, the technical regulator, ESV, undertakes regular audits to monitor compliance.

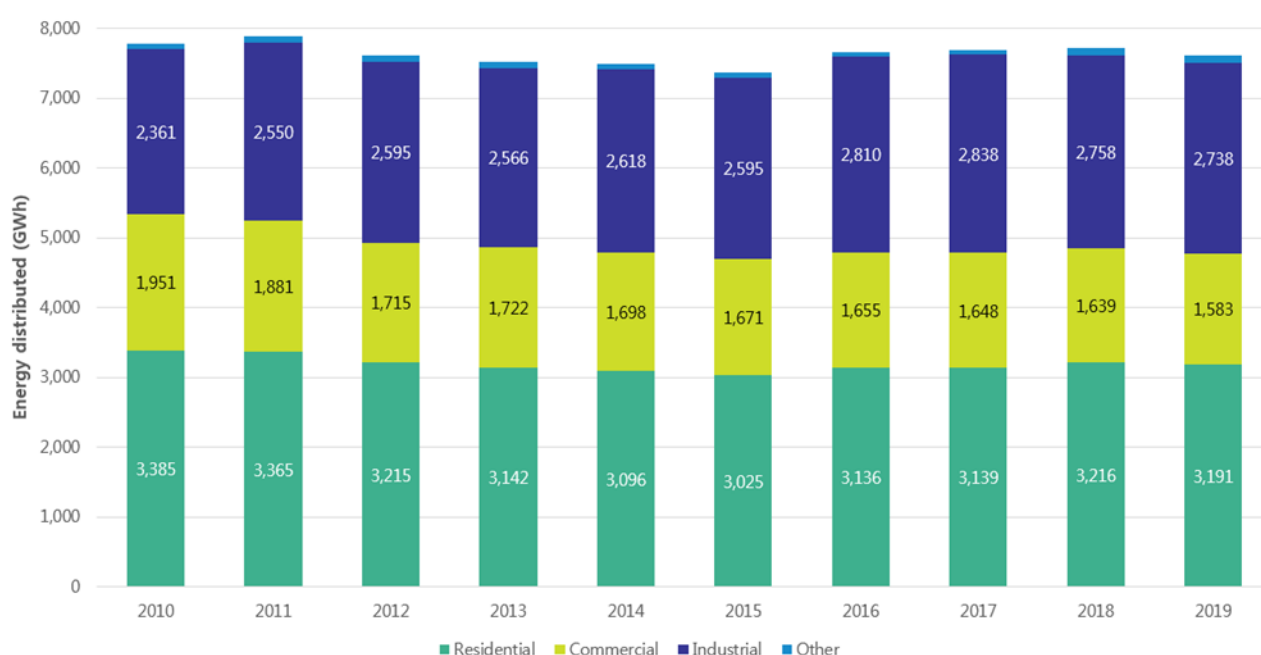
The Asset Management Strategy, incorporating individual plant and equipment strategies, provides asset condition and remaining life profiles that support revenue submissions to the AER for replacement and maintenance of the network. The AER undertakes benchmarking against other distribution businesses to validate asset life cycle, replacement and maintenance requirements.

The ESMS is an integral element of AMS. The AMS is certified to ISO 55001, the standard for asset management. The AMS focuses on low life cycle costs, enhancing network safety and performance and optimising capital and operating expenditures.

Electricity Distribution Network Growth

The AusNet Services Group enhances its network capacity to meet on-going increases in demand from consumers. The AusNet Services Group believes that its proposed capital expenditure plan is sufficient to meet foreseeable future demand for electricity and growth in customer connections. In the year ended 31 March 2019, the AusNet Services Group experienced a 1.4% decrease in energy delivered which compares to an increase in the customer base of approximately 14,800 customers, a 2.0% increase in new customer connections over the previous year. The figure below illustrates electricity consumption for the AusNet Services Group's electricity distribution network over the past ten fiscal years.

Units of Electricity Distributed (GWh)



Source: AusNet Services Group.

Electricity Distribution Network Performance

Distribution of electricity across the AusNet Services Group's distribution network is subject to various factors that may disrupt delivery. The majority of electricity distribution network outages are unplanned and result from a variety of factors beyond the AusNet Services Group's control, including storms, interference by animals, vegetation and bushfire. The AusNet Services Group mitigates this risk with a number of programmes aimed at ensuring resilience of the network, such as removing unstable trees that endanger the network. Other outages result from planned shutdowns which are undertaken for maintenance or upgrades on the network.

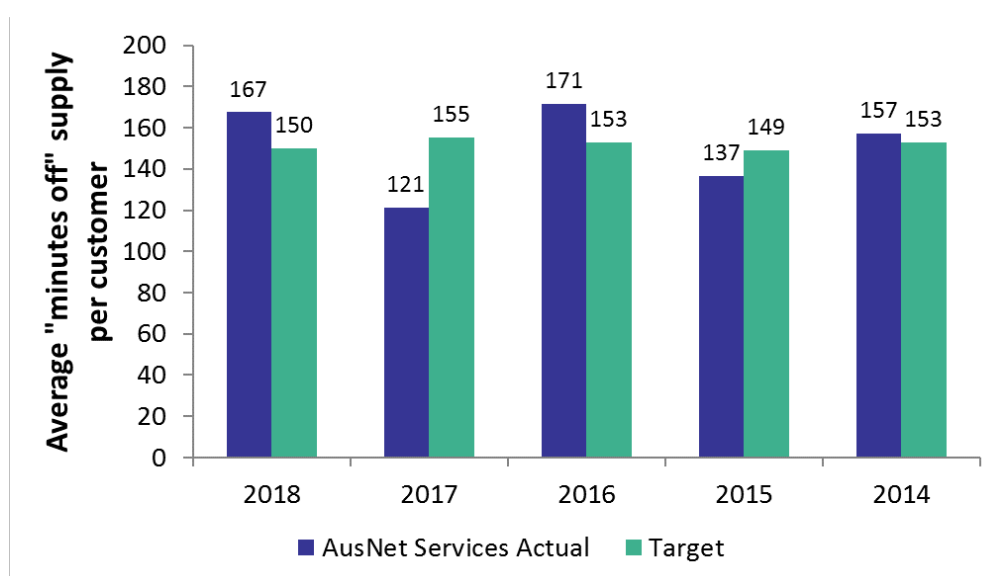
A financial incentive provided through the regulatory regime rewards or penalises the AusNet Services Group for changes in network reliability through the STPIS. The STPIS rewards or penalises regulated distributors for their performance relative to their own historic network reliability. Under the STPIS, a distributors allowed revenue (through average prices for all customers) is increased (or decreased) based on variances from target to actual performance measured annually. The scheme has developed across regulatory control periods, with service measures being broadened from the original reliability measure. The following measures factor into the calculation, which is significantly weighted toward the network measures:

- USAIDI (Unplanned System Average Interruption Duration Index, or the average minutes a customer is off supply each year as a result of unplanned outages);
- USAIFI (Unplanned System Average Interruption Frequency Index, or the average number of times a customer is off supply each year as a result of unplanned outages);

- MAIFI (Momentary Average Interruption Frequency Index or the average number of times a customer is off supply for less than 1 minute each year); and
- Call centre performance (the percentage of fault calls progressing to an operator that are answered within 30 seconds).

Incentives under the STPIS are paid relative to a regulatory control period target and are an adjustment to prices one year after the completion of the performance year (i.e. 2016 performance impacts revenues from 1 January 2018 through 31 December 2018).

Yearly performance can vary broadly depending on the number of weather events. However, a number of risk mitigation tools exist to enable the AusNet Services Group to smooth or mitigate this variability. These include the ability to bank performance (delay rewards or penalties for a year) to reduce volatility of revenue and an exemption regime where extreme performance outside of the AusNet Services Group's control is excluded from calculations of performance. The graph below shows the reliability performance, as measured by the number of unplanned minutes off supply, defined as the total minutes, on average, that a customer can expect unplanned interruption to supply over a specified period of time ("USAIDI"), against the AusNet Services Group's internal targets for the regulatory period 2014 through 2018.



Source: AusNet Services Group.

Average unplanned minutes off supply per customer for 2015 and 2017 was better than the target. This can be attributed to a combination of favourable weather and the programme that focuses on improving the distribution network's reliability performance by systematically reviewing poorly performing segments and investing in making the network "smarter", that is, adding technology that automatically reconfigures the affected network in order to minimise the number of customers affected by outages.

Contributing to the unfavourable USAIDI performance in 2014 were a number of severe weather days. In 2014, a total of 12 total fire ban days were declared in Victoria between January and March 2014 due to extreme temperatures which resulted in bushfires in some parts of the state. A total of 13 USAIDI minutes were lost between 14 and 17 January 2014 due to four consecutive days with temperatures above 40°C. Another four consecutive days of temperatures above 35°C affected Victoria between 6 and 9 February. On 9 February 2014, 18 USAIDI minutes were lost due to bushfires, a day which qualified for the Major Event Day ("MED") exclusion criteria, whereby days which exceed an established USAIDI threshold are excluded from the regulatory assessment of performance.

Damaging winds on 16 and 29 December which resulted in 3.7 and 5.2 USAIDI minutes being lost respectively. These events did not meet the MED threshold.

Network performance in 2015 was aided by favourable weather and underlying performance improvements related to the types of investment referred to above in "smarter", self-healing networks.

In 2016, the summer period between January and March was relatively benign in terms of temperature. There were only seven declared total fire ban days during this period compared to 6 in 2015 and 12 in 2014. Overall the network performed

well against occasional extreme temperature days where in the past these would have caused significant USAIDI minutes lost.

However, there were five major storms that resulted in over 324,000 customer interruptions in January, March, May and October. Overall USAIDI lost from these storms was approximately 211 minutes (the highest in 20 years) and will be excluded in the regulatory performance STPIS scheme. In spite of this exemption, moderate storms during the year also accumulated another 57 USAIDI minutes but are ineligible for performance exclusion. This is the main reason for the unfavourable performance of 171 minutes against the target of 153.

Weather in 2017 was relatively benign compared with 2016 even after excluding MEDs. In 2016, there were five MEDs compared to only one in 2017. Overall USAIDI minutes lost from MEDs in 2016 was ~212 compared to only ~27 in 2017. Also, more high activity days (i.e. minor storms) were recorded in 2016 than in 2017. The underlying performance on USAIDI also saw improvements from major fault causes of supply interruption. Both vegetation and asset failure contributions to customer minutes off supply were significantly lower compared to long term averages.

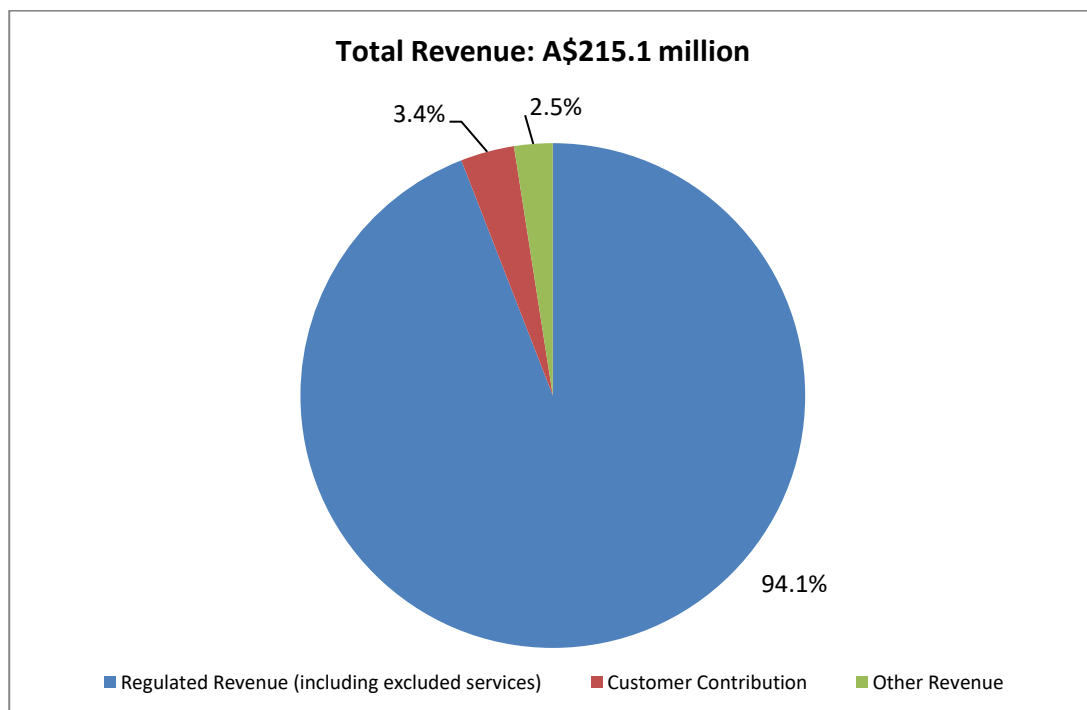
In 2018, the distribution network experienced only one MED where over 45,000 customer interruptions were recorded on 14 February. However, the network sustained several high activity days (i.e. non-MED or minor storms) during the months of March, April, May, July and August. Individually, the impacts on USAIDI from these minor storms were not high enough to be eligible for exclusion. Collectively, the total USAIDI impact from these non-MED storms was ~41 minutes. This is the main reason of the overall reliability underperformance in 2018.

Overall weather conditions in 2019 and early 2019 were more severe compared to 2018. The network sustained four MEDs with total USAIDI impact of ~123 minutes and over 180,000 customer interruptions. The MEDs recorded on 31 January and 21 November 2019 were primarily due to wind/lightning storms. The MEDs recorded on 30-31 December 2019, were due to the bushfires in East Gippsland and North East regions, some of which are still burning as at the date of this Offering Circular. Moderate (non-major) wind and lightning storms in February, March, June, July and August 2019 accumulated 30+ USAIDI minutes. A third-party crane fell over and damaged assets at Clyde North zone sub on 25 September resulting in 5.7 USAIDI minutes lost and ~38,000 customers off supply.

Gas Distribution Network

Gas Distribution Revenue Profile

The AusNet Services Group's gas distribution revenues for the financial year ended 31 March 2019 is summarised in the following chart. Each of these components of the AusNet Services Group's gas distribution revenues are discussed in greater detail below.



Source: AusNet Services Group.

Gas Distribution Regulated Revenue

The AusNet Services Group charges retailers, at regulated rates, for their customers' DUoS charges. The AER is responsible for regulating the distribution tariffs pursuant to the NGR and the GIA. Price regulation of the distribution networks is conducted in a similar manner as for electricity distribution tariffs (described above), except that it forms part of the approved access arrangement, rather than being a separate determination. For the gas distribution network, the prices per volume of gas distributed are regulated, with actual revenue subject to the volume of gas distributed. The target total building block revenue set for the AusNet Services Group's gas distribution network for the current regulatory period, 2018 through 2022, is set out in the table below.

	Year Ended 31 December				
	2018	2019	2020	2021	2022
	(A\$, in millions)				
Return on capital ⁽¹⁾	92.9	96.3	99.2	103.4	107.2
Depreciation	41.6	31.0	33.8	37.2	41.6
Operating costs allowance	54.3	56.3	58.4	61.0	63.3
Efficiency carry over	3.4	1.7	3.3	0	0.7
Tax allowance.....	10.0	6.7	8.4	10.9	11.1
Total building block revenue ⁹	199.3	189.2	200.1	209.4	220.7
Total building block revenue (smoothed) ⁽²⁾	192.7	198.7	203.1	209.4	214.2

Source: AER, Access arrangement final decision AusNet Services 2018 to 2022, Updates – Return on Debt for 2020.

Notes:

(1) Return on capital is calculated by multiplying the RAB by the WACC (post tax nominal) as determined by the AER.

(2) A revenue smoothing (CPI-X) factor is applied to the unadjusted revenue path by AER. Negative values for X indicate real price increases under the CPI-X formula.

Gas Distribution Customer Contributions

Customers are required to contribute to the cost of their connection should the cost of connection exceed the expected incremental revenue the customer will contribute. Customer contributions are regulated under the Gas Distribution System Code. The cost of assets built for customers is included in the RAB net of the contribution made by the customer.

Excluded Services

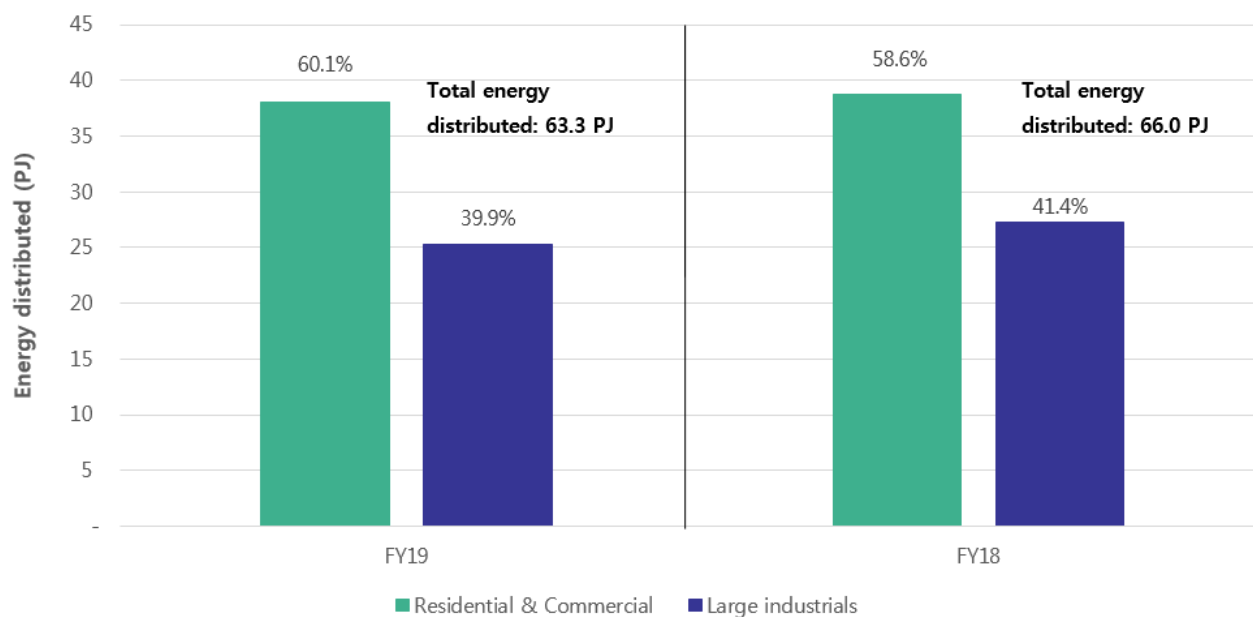
The AusNet Services Group charges additional fees for ancillary reference services, including special meter reading, connection and disconnection services, and meter and gas installation tests.

Gas Distribution Customers

For the financial year ended 31 March 2019, the AusNet Services Group's five largest gas retail customers accounted for 81% of the AusNet Services Group's total gas distribution network and excluded revenues. The AusNet Services Group had approximately 722,200 residential and commercial customers and approximately 295 large industrial customers as at 30 September 2019. The chart below provides an overview of the AusNet Services Group's gas energy distributed for the fiscal years ended 31 March 2019 and 31 March 2018.

⁹ Note the total also incorporates a reduction for ancillary reference service revenue, hence the rows do not add to the total

Gas energy distributed FY2019 versus FY2018



Source: AusNet Services Group.

The AusNet Services Group charges a volume-based tariff to residential and commercial customers who account for approximately 60% of total energy delivered and 99% of distribution-haulage regulated revenue. Large industrial customers account for approximately 40% of total energy delivered, but only 1% of distribution haulage revenue through a demand-based tariff.

Gas Distribution Network Condition

The age profile and asset condition of the AusNet Services Group's gas distribution network are consistent with industry standards. Assets are maintained, refurbished and replaced in response to well established inspection, testing and condition monitoring programmes that form part of the AusNet Services Group's comprehensive asset management system. This asset management system, which was certified to the international standard for Asset Management (ISO 55001) in 2014, focuses on low life cycle costs, enhancing network safety and performance and optimising capital and operating expenditures.

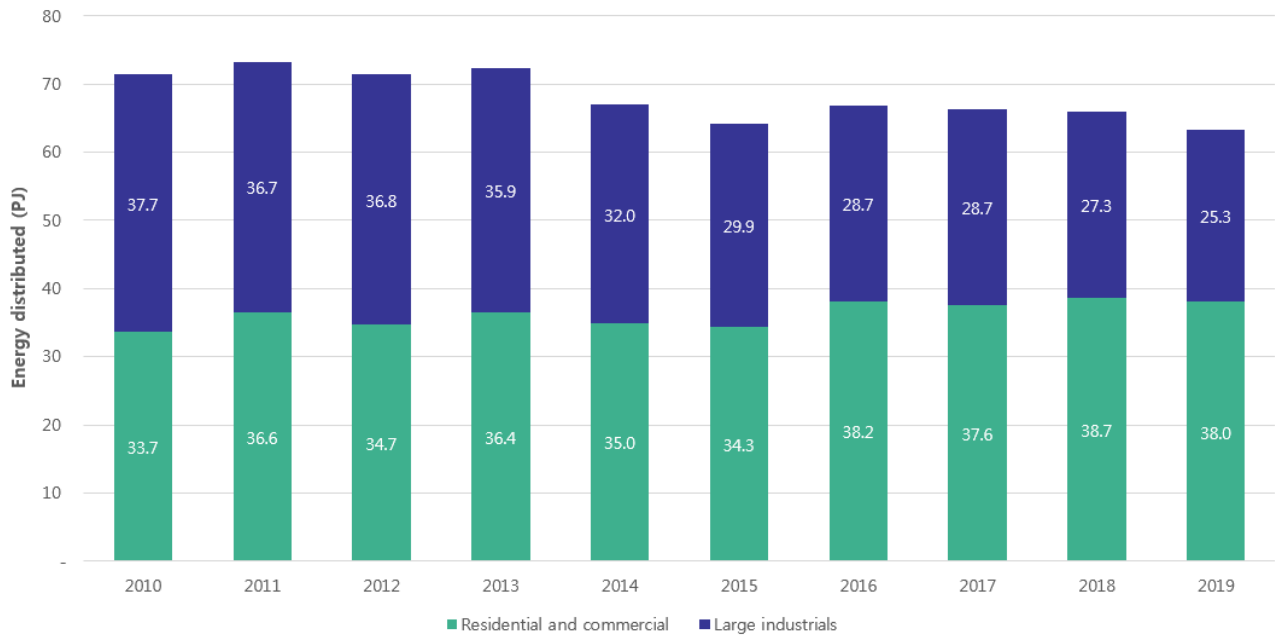
Safety related programmes are subject to a Gas Safety Case approved by Energy Safe Victoria, the regulator in respect of the safe supply and use of gas in Victoria. Compliance with the approved Gas Safety Case is monitored via annual audits conducted by the AusNet Services Group and by Energy Safe Victoria.

The AusNet Services Group's gas network consisted of approximately 184 kilometres of transmission pipe and approximately 11,760 kilometres of distribution mains as at 30 September 2019. The pipelines within the network are of different material, reflective of the prevailing technology of the day when the network was constructed: 72% are polyethylene, 21% are protected steel, 3% are polyvinyl chloride ("PVC"), and the balance (4%) is of unprotected steel or cast iron construction.

Gas Distribution Network Growth

The AusNet Services Group enhances its network capacity to meet on-going increases in demand from consumers. The AusNet Services Group believes that its current proposed capital expenditure plan is sufficient to meet foreseeable future increases in demand for gas. During the year ended 31 March 2019, the AusNet Services Group had approximately 19,000 net new customer connections equating to 2.7% growth. There continues to be strong growth in new connections in the western suburbs of Melbourne due to new estate developments. The figure below illustrates gas consumption from the AusNet Services Group's gas distribution network over the past ten years.

Units of Gas Distributed



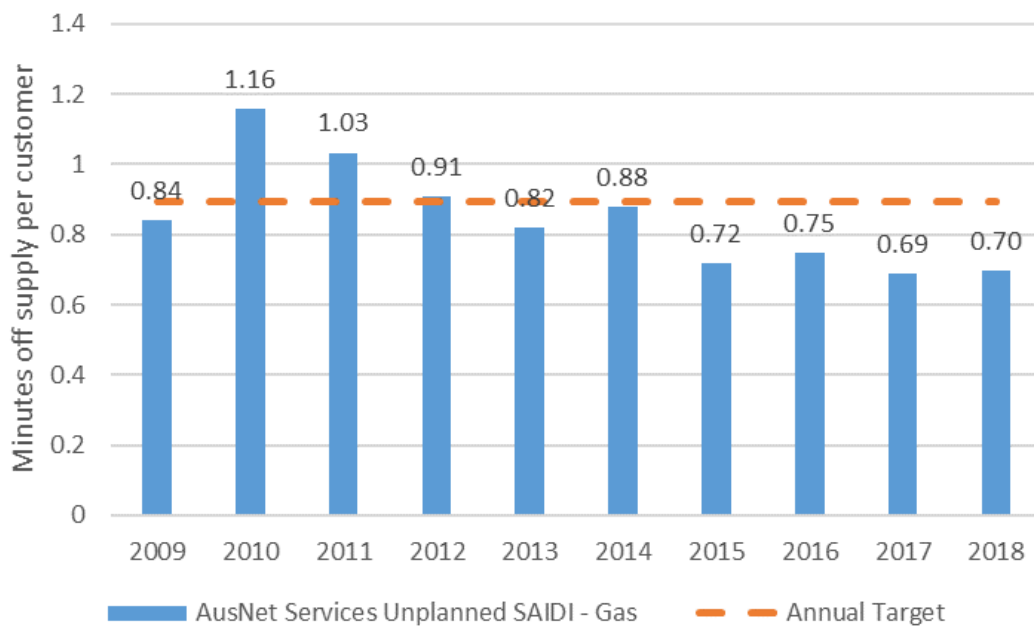
Source: AusNet Services Group.

Gas Distribution Network Performance

Network outages negatively affect the AusNet Services Group's gas distribution revenues, which are based on the volume of gas consumed by end users. The AusNet Services Group measures the reliability of its gas distribution system by:

- USAIDI; and
- leakage rates, which measures the number of network leaks per kilometre of distribution mains (for mains & services) and meter leaks per 1,000 connection points.

The chart below illustrates the gas distribution network's historic and current performance for USAIDI.



Source: AusNet Services Group.

The AusNet Services Group achieved its performance target for USAIDI for the past six years.

The performance targets for 2011 and 2010 were exceeded as a direct result of high rainfall in the western part of Victoria. High rainfall increases water ingress into the low pressure cast iron network consequently causing increased customer outages. In 2010, Victoria experienced its heaviest rainfalls in a number of years. The years since 2011 have been relatively dry, which has contributed to the below target USAIDI values. During this period AusNet Services has continued its mains replacement programme, upgrading old, poor performing low pressure mains which are susceptible to water ingress to high pressure mains.

Unregulated Businesses

In addition to delivering organic growth on its regulated networks, the AusNet Services Group has considerable unregulated activities which are combined under Mondo. In building the AusNet Services Group's contracted infrastructure investment portfolio the business has leveraged its transmission expertise in the fields of development, construction and operations and management of high voltage assets for opportunities that fall outside the regulated regime. Further, the AusNet Services Group has considerable commercial expertise and practical skills in metering and asset intelligence services enabling it to add value from unregulated business opportunities.

Contracted Infrastructure Investments

The AusNet Services Group owns and operates a portfolio of contracted infrastructure assets of circa A\$0.8 billion. These investments consist primarily of network infrastructure assets which fall outside the economically regulated asset base. The investments are made through directly negotiated agreements, priced either based on an approved negotiating framework or competitively (including tender processes or bilateral negotiations), pursuant to which the AusNet Services Group typically receives revenue over the contract period in exchange for the network service and infrastructure provided.

Mondo expects to complete construction of the transmission connection assets for the Stockyard Hill Wind Farm (developed by Goldwind Australia) and the Dundonnell Wind Farm (developed by Tilt Renewables) in the 2019/20 financial year.

Mondo continues to explore transmission infrastructure upgrades and has been successful in securing:

1. Western Victorian transmission augmentation works – project completion expected in the 2023/2024 financial year
2. The right to develop the Victorian connection assets of Project Marinus – Memorandum of Understanding signed with TasNetworks in August 2019. Project Marinus is proposing the development of a second subterranean cable interconnection between Victoria and Tasmania.
3. The right to conduct preliminary works regarding the required augmentation of the Victorian transmission network in relation to Snowy 2.0.

Success in any one, or a number, of these projects would provide a significant contribution to the growth of contracted infrastructure portfolio, with completion targeted for 2024 onwards.

The AusNet Services Group views contracted network infrastructure as having strong growth potential and has developed a significant pipeline of opportunities including bespoke network solutions for both generation and major load clients. The AusNet Services Group's investments to date have been concentrated in Victoria, however, the business is seeking to expand the contracted infrastructure business into other States.

Energy Services and Emerging Markets

Mondo is aiming to realise new lines of business evolving from the transformation of the energy industry, with a particular focus on enabling both commercial and industrial businesses and communities to understand and improve the way they source and use energy. Trials to date have been successful and have involved communities in Mooroolbark, Yackandandah and the Waurin Ponds campus of Deakin University.

Mondo was awarded the Clean Energy Council award for Community Engagement in July 2019 in recognition of the work undertaken in the Yackandandah region in partnership with Totally Renewable Yackandandah which seeks to obtain 100% of its electricity from renewable sources by 2022.

The growth in distributed energy supply provides Mondo with opportunities to utilise its metering and energy management capabilities to devise a product and service offering to appeal to customers' changing needs. Mondo is currently exploring such opportunities, with the view to being able to respond to customer and market demand in a measured manner while the distributed energy market evolves.

Other Services

Mondo is a leading specialist provider of contestable metering, asset intelligence and technical services in the essential infrastructure sector throughout Australia. Services include the leasing of communications infrastructure and space on the AusNet Services Group sites and assets, contestable metering services in the National Electricity Market and asset intelligence solutions.

Mondo currently provides these services to various industry markets including, but not limited to, utility owners, energy retailers, governments, industrial and commercial businesses. Mondo has a number of accreditations that underpin its services offering, including AEMO accreditations for metering services and laboratories for calibration and testing services accredited by the National Association of Testing Authorities.

Mondo is dedicated to continually improving its offering and presence in these markets.

Technology

The Technology division develops and manages the technology strategies, architecture, systems and services which enable the achievement of the AusNet Services Group's strategic objectives and which support the safe, effective and efficient operation of its networks. The Technology division also provides 'digital practices' to enable greater business efficiency and effectiveness through the adoption of new technologies, including automation, advanced analytics, artificial intelligence and innovation.

The AusNet Services Group has several important technology systems which support the management of its transmission and distribution networks. These include systems relating to the operation and control of the electricity and gas networks, call centre and customer support systems, metering systems, billing and revenue collection systems, and a range of other systems supporting corporate services and enterprise resource planning (e.g. financial and human resources systems). The systems used to protect and control the electricity and gas networks ("**SCADA systems**") are the most critical. Control room operators use these systems to monitor the state of the networks and the energy that flows through them. Metering systems, advanced metering infrastructure, data processing systems and billing systems play a critical role in collecting revenue and supporting enhanced customer services. Website, call centre and customer support systems enable the AusNet Services Group to respond to faults, connection requests and other customer needs on a timely basis.

Various risk treatment strategies are employed and tested regularly to ensure continuity of all systems, including backup, failover and disaster recovery. In line with the AusNet Services Group's risk management framework, the Technology division regularly reviews its business and operational risks to document and put in place appropriate risk management strategies and controls. These encompass analysis of the range of potential threats and their associated mitigations and treatments, such as hardware and software failures, environmental failures (e.g. fires, loss of power, etc.), exposure to viruses, and malicious attacks.

The AusNet Services Group has a blend of in-house resources and outsourced services for the delivery of technology services and projects. The AusNet Services Group has uplifted its operational and enterprise security capabilities by implementing solutions and functions to improve organisational security posture, including a 24x7 Security Operations Centre and Cyber Security Incident Response capability.

Employees

The AusNet Services Group had 1,681 permanent payroll employees as at 30 September 2019. The vast majority of the AusNet Services Group's employees are located in Victoria. The total employee group comprises 1,366 employees on individual employment contracts and 315 employees on enterprise bargaining agreements or Modern Awards.

Overall, the AusNet Services Group enjoys a relatively stable industrial relations environment with issues resolved through negotiation and occasional support from the Fair Work Commission, the employment tribunal. In terms of disputes, there has been minimal industrial action in pursuit of any union claims, with the period from 2005 through 2010 being free of such action, and some limited protected action in 2010 and more recently in 2017 in the Electricity division, where a new enterprise agreement was renegotiated covering trade based roles. As at the date of this Offering Circular, AusNet Services was not subject to any protected industrial action.

Health & Safety

The AusNet Services Group is committed to protecting the health, safety and wellbeing of those who work for and with the AusNet Services Group and for those who come into contact with the AusNet Services Group's operations. The AusNet Services Group is committed to attaining industry leading performance in health and safety and believes that such performance is a critical part of the success and sustainability of the business.

The AusNet Services Group uses a systematic approach to managing health and safety which has been mapped against the internationally recognised standards. The AusNet Services Group's management system, health and safety standards and procedures are applied at the operating level to meet the requirements of Australian State and Federal government health and safety regulators.

The AusNet Services Group monitors health and safety performance regularly and intervenes if performance in health and safety does not meet the continual improvement targets set.

Risk Management and Internal Controls

The effective management of risk is central to the creation and protection of value for the AusNet Services Group. By understanding and managing risk, the AusNet Services Group aims to provide greater certainty for shareholders, employees, customers, suppliers and the communities in which it operates.

The Board of Directors of AusNet Services reviews and guides the AusNet Services Group's overall systems of risk management and internal control.

The Audit and Risk Management Committee assists the Board of Directors of the AusNet Services in discharging these responsibilities. The Audit and Risk Management Committee has oversight of the adequacy and effectiveness of the AusNet Services Group's risk management processes and internal control system, including the establishment and maintenance of risk assessments and management processes, plus the monitoring and reporting of material business risks (financial and non-financial).

The Managing Director is accountable to the Audit and Risk Management Committee and the Board of Directors of the AusNet Services for the implementation of risk management processes in line with good corporate governance.

The AusNet Services Group adopts a structured and consistent process for recognising, understanding and responding to risk. All employees are responsible for the management of risk in accordance with the Risk Management Policy and Risk Appetite Statement. This responsibility includes ensuring that emerging conditions and key controls are identified, monitored and actioned.

The AusNet Services Group operates under one framework that enables the management of risk to become fully integrated into all its critical systems and processes for making decisions. This enables the AusNet Services Group to take appropriate action to reduce uncertainty and increase the likelihood that its objectives will be achieved.

Interest Rate and Foreign Exchange Risk Management

The AusNet Services Group manages its interest rate risk with fixed rate debt and interest rate swaps. The AusNet Services Group's revenue and costs from its electricity transmission and distribution businesses and its gas distribution business are impacted directly by changes in interest rates via the regulatory price review process. This is a result of the "building block" approach where interest rates are used to determine the WACC, and consequently, regulated revenue.

The objective of the hedging activities in relation to these 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 AER when setting the rate of return for the relevant business. The AusNet Services Group's Treasury Risk Policy states that interest rate risk is to be managed in order to maintain the percentage of fixed rate debt to total debt at a level between 90% and 100% for each regulated business over the course of its regulatory period. As at 30 September 2019, the percentage of fixed rate debt (including floating rate debt hedged through interest rate swaps) to net debt was 94.0%.

The functional currency of the AusNet Services Group is the Australian dollar. The AusNet Services Group's Treasury Risk Policy states that any material currency exposure has to be hedged. This includes hedging 100% of foreign currency denominated debt. As at 30 September 2019, all foreign currency denominated bonds were 100% hedged through maturity.

Insurance

The AusNet Services Group self-insures its towers, poles, wires, pipelines and associated equipment in accordance with industry practice. The AusNet Services Group carries various types of insurance, including property damage, workers' compensation, environmental liability, combined liability (includes bushfire liability, product liability, cyber risk, personal injury, automobile liability and professional indemnity), directors' and officers' liability insurance and corporate travel. These insurances and their deductibles are maintained at levels that the AusNet Services Group believes are adequate or reasonable and consistent with industry standards.

The AusNet Services Group has liability insurance which specifically provides cover for bushfire liability. The AusNet Services Group 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.

Litigation and Disputes

Other than as disclosed in this Offering Circular, as at the date of this Offering Circular, there are no legal or arbitration proceedings pending or known to be contemplated that may in the future have, or have had in the 12 months preceding the date of this Offering Circular, a material effect on the financial position or profitability of the AusNet Services Group. The AusNet Services Group is party to various other litigation matters in the ordinary course of business. The AusNet Services Group cannot estimate with certainty the ultimate legal or financial liability with respect to those litigation matters but believes any ultimate liability in those litigation matters is not expected to be material to the financial position, results of operations or cash flows of the AusNet Services Group.

Environmental Matters

Contaminated Sites

The AusNet Services Group's operations are subject to a number of laws and regulations relating to environmental protection and safety, including bushfire mitigation. The AusNet Services Group believes that it is in compliance in all material respects with applicable environmental laws and regulations and that there are no outstanding or anticipated environmental issues of a significant nature other than a number of sites contaminated by historical gas manufacturing operations. The estimated net present value for costs of remediation of those sites, amounting to A\$37.2 million at 30 September 2019, has been provided for in the AusNet Services Group's accounts. Work related to the remediation is ongoing.

Bushfire mitigation and vegetation management

The AusNet Services Group's safety record, network asset management and network maintenance programmes are consistent with industry practice, and its bushfire mitigation and vegetation management programmes comply with the Electricity Safety (Bushfire Mitigation) Regulations 2013 (Vic) and Electricity Safety (Electric Line Clearance) Regulations 2015 (Vic) respectively. The AusNet Services Group's bushfire mitigation and vegetation management programmes are audited annually by Energy Safe Victoria. The AusNet Services Group has consistently achieved a 'zero' bushfire mitigation index for the bushfire seasons since listing in 2005.

Spills from Oil Filled Plant

The AusNet Services Group also has established policies and procedures for managing electricity and gas facilities to existing environmental regulatory standards. Spills from oil filled plant may happen on occasion within the electricity transmission and distribution industry. The AusNet Services Group has a programme to prevent spills of transformer oil causing material off-site effects, which include erecting containment barriers and oil/water separation pits and filters for large oil filled plant in major installations such as zone substations and terminal stations. Nevertheless, from time to time oil spills may occur from leaking or damaged plant items. These spills occasionally escape containment and contaminate ground or surface water, leading to clean-up and remediation efforts.

Polychlorinated Biphenyls

The AusNet Services Group has removed polychlorinated biphenyls from most of its electrical equipment. Small amounts remain in low concentrations in certain equipment. The AusNet Services Group has established procedures for the safe management and disposal of this material.

Asbestos

The AusNet Services Group has undertaken an audit to identify all material or materials likely to contain asbestos in its businesses. The AusNet Services Group maintains asbestos registers and has in place procedures relating to asbestos removal where required.

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 these studies have established adverse effects, but there still remains substantial scientific and public debate. Any potential impact arising from electric and magnetic fields would affect the electricity industry as a whole and would not be limited to the AusNet Services Group.

Regulatory Management Policy

The AusNet Services Group seeks to maintain a professional relationship with government and the relevant regulators. The AusNet Services Group believes that this strategy has been relatively successful, in light of the outcomes achieved in a range of regulatory decisions and approvals. The AusNet Services Group believes that the improvement achieved in the final decisions for the 2016 EDPR, and the 2017 TRR, compared to the regulator's draft decision, are evidence of the success of its regulatory approach to date.

BOARD AND MANAGEMENT

Directors

The Board of Directors for each of AusNet Services consists of the following persons:

Name	Position
Peter Mason AM	Chairman
Tony Narvaez	Managing Director
Alan Chan	Director
Dr Ralph Craven	Director
Sally Farrier	Director
Li Lequan	Director
Robert Milliner	Director
Dr Nora Scheinkestel	Director
Tan Chee Meng	Director

Peter Mason AM

Bachelor of Commerce (First Class Honours), University of New South Wales

Master of Business Administration, University of New South Wales

Honorary Doctorate, University of New South Wales

Chairman and Independent Non-Executive Director. Mr Mason has been an Independent Non-Executive Director of AusNet Services since March 2016 and Chairman of AusNet Services since 11 May 2016.

Mr Mason has over 40 years' experience in investment banking, including with JP Morgan and Schroders and brings to the board a wealth of business experience. In addition to his investment banking career, Mr Mason has extensive experience as both a Chairman and a Non-Executive Director of listed companies including Chairman of AMP Limited and Chairman of David Jones Limited.

Mr Mason is currently a Senior Advisor to UBS, a Director of The Centre for Independent Studies and Chairman of the UBS Australia Foundation.

Mr Mason was a Trustee of the Sydney Opera House Trust for six years and a member of the Council of the University of New South Wales for 13 years. For 12 years he was a Director of the Children's Hospital in Sydney and Chairman of the Children's Hospital Fund for eight years. Mr Mason was appointed a Member of the Order of Australia for his contribution to the Children's Hospital.

Tony Narvaez

Bachelor of Commerce & Economics, Murdoch University
Diploma in Financial Services (Energy trading)
Executive studies, Harvard Business School, USA

Managing Director. Mr Narvaez joined AusNet Services as Managing Director on 1 November 2019. Mr Narvaez has extensive experience in the energy sector, including prior roles as CEO of Endeavour Energy and CEO of United Energy and Multinet Gas.

Mr Narvaez has led several significant projects across various technologies, major transformations and joint ventures, as well as held senior roles in commercial, strategy and operations in Australia and internationally. Before moving to Victoria, Mr Narvaez held senior executive roles for General Electric and Verve Energy.

Alan Chan Heng Loon

Diplome d'Ingenieur
Master of Business Administration (INSEAD)

Non-Executive Director. Mr Chan has been a Non-Executive Director of AusNet Services since May 2018.

Mr Chan has significant experience in both the government and corporate sectors. From 2002 to 2017 he was Chief Executive Officer and a director of Singapore Press Holdings Ltd (“SPH”) and was responsible for managing the SPH group’s portfolio of businesses. His other prior directorships include Singapore Power Limited and The Development Bank of Singapore Ltd.

Before joining SPH, Mr Chan had a career in government spanning 25 years. Some of his government appointments included Permanent Secretary of the Ministry of Transport, Deputy Secretary of the Ministry of Foreign Affairs, Principal Private Secretary to Senior Minister Lee Kuan Yew and Director of Manpower, Ministry of Defence.

Mr Chan has also served as Chairman of the Urban Redevelopment Authority (Singapore) and was Chairman of the Corporate Governance Council that reviewed the Singapore Code of Corporate Governance in 2012.

Mr Chan is currently Chairman of the Land Transport Authority (Singapore), Chairman of the Singapore-China Foundation and a member of the Public Service Commission (Singapore). He is also Deputy Chairman of Pavilion Energy Pte Ltd and Pavilion Energy Singapore Pte Ltd.

Mr Chan holds a Diplome d’Ingenieur from the Ecole Nationale de l’Aviation Civile, France and MBA (with Distinction) from INSEAD, France. He is a President’s Scholar and was conferred the Public Administration Medal (Gold and Silver) and Meritorious Service Medal for his contributions to public service.

Dr Ralph Craven

Bachelor of Engineering (Electrical – First Class Honours), University of Queensland
Doctor of Philosophy, University of New South Wales
Postgraduate Diploma in Management, Deakin University
Postgraduate Diploma in Information Processing, University of Queensland

Non-Executive Director. Dr Craven has been a Non-Executive Director of AusNet Services since January 2014.

Dr Craven has significant experience across a range of industries having worked in the energy, resources, infrastructure and agribusiness sectors for more than 35 years. His professional background encompasses electricity and gas businesses, mining, commodities trading, and the management of large scale system operations at the national level and the delivery of major infrastructure projects. Dr Craven has been a full time non-executive director since 2007 and served on many boards in the public and private sector.

Dr Craven is currently a non-executive director and Chairman of Genex Power Limited and a non-executive director of Senex Energy Limited and Multicom Resources Limited.

Dr Craven is the former Chairman of Stanwell Corporation Limited, the largest electricity generation company in Queensland. His other prior directorships include being non-executive director and Chairman of Invion Limited, Ergon Energy Corporation Limited, Tully Sugar Limited and non-executive Deputy Chairman of Arrow Energy Limited. He has also been a non-executive Director of Windlab Limited and Mitchell Services Limited.

At the end of 2015 Dr Craven completed a six-year term as Director of the International Electrotechnical Commission (“IEC”) and Chair of the IEC National Committee of Australia. Dr Craven was CEO of Transpower New Zealand Limited and also held senior executive positions in Shell Coal Pty Ltd and NRG Asia Pacific Limited

Sally Farrier

Bachelor of Chemical and Process Engineering (First Class Honours), University of Canterbury, New Zealand
Masters of Business Administration, Victoria University of Wellington
Post Graduate Diploma in Finance and Investment Analysis, Securities Institute of Australia

Independent Non-Executive Director. Ms Farrier has been an Independent Non-Executive Director of AusNet Services since January 2014.

Ms Farrier is a professional non-executive director with over 15 years’ experience serving as a director on private, public and government boards. For much of her career, Ms Farrier’s worked in and alongside the water, electricity, gas, transport. and infrastructure sectors, and as part of government, regulatory institutions and commercial businesses. She has specialist skills in policy, regulation and strategy and in significant reform and restructuring programmes. Further to her non-executive director career, she continues to be engaged in an expert capacity including in relation to water management at Australian federal and state levels having served as a National Water Commissioner, a member of the Victorian Water Trust Advisory Council and numerous planning and regulatory bodies. She has a keen interest in effective governance, risk management and technology. Ms Farrier is also an active supporter of women entrepreneurs and innovation and is an active member of Scale Investors.

Ms Farrier is currently a director and Deputy Chairman of Kidney Health Australia. Her prior directorships include Meridian Energy Limited, Manidis Roberts Pty Limited, Hydro Tasmania and Western Power

Li Lequan

Bachelor of Atmospheric Physics and Atmospheric Environment, Nanjing University
Master of Atmospheric Physics and Atmospheric Environment, Research Institute of Atmospheric Physics of Chinese Academy of Sciences
Master of Business Administration, City University, Washington USA

Non-Executive Director. Mr Li has been a Non-Executive Director of AusNet Services since October 2018.

Mr Li is Senior Vice President and General Counsel of State Grid International Development Corporation Limited (SGID). He also serves as a Non-Executive Director of Redes Energéticas Nacionais, SGPS, S.A. in Portugal. He was previously a Director of ElectraNet Pty Ltd.

Mr Li began his career with the China Electricity Council in 1988 and has been in the power industry for approximately 30 years. Since 2009, Mr Li has worked in SGID and been in charge of the mergers and acquisitions of overseas power transmission and distribution assets.

Robert Milliner

Bachelor of Commerce, University of Queensland
Bachelor of Laws (Hons), University of Queensland
Masters of Business Administration, University of Western Australia
Advanced Management Program, Harvard Business School, USA

Independent Non-Executive Director. Mr Milliner has been an Independent Non-Executive Director of AusNet Services since July 2015.

Mr Milliner has extensive experience in the legal and corporate sectors and during his time in legal practice specialised in commercial law in major energy sector reforms, mergers and acquisitions, privatisation and infrastructure transactions. He is a Senior Adviser at UBS and Senior Adviser to the International Chamber of Commerce Secretary General. He is Chairman of the Australian Payments Council, a director of the Global Infrastructure Hub Ltd, a member of the APEC Business Advisory Council and a director of the Board of the Foundation for Young Australians. In 2013 and 2014 he was the B20 Australia Sherpa and coordinated the international business community's recommendations to the 2014 G20.

From 2004 to 2011 he was Chief Executive Partner of law firm Mallesons Stephen Jaques (now King & Wood Mallesons) and retired from Mallesons in January 2012 after 28 years as a partner.

Dr Nora Scheinkestel

Bachelor of Laws (Honours), University of Melbourne
PhD, University of Melbourne

Independent Non-Executive Director. Dr Scheinkestel has been an Independent, Non-Executive Director of AusNet Services since November 2016.

Dr Scheinkestel is an experienced Company Director with more than 25 years' experience as a non-executive Chairman and Director of companies in a wide range of industry sectors including the public, government and private sectors. Dr Scheinkestel has a long track record in the infrastructure sector. She has served as both chairman and director of a number of gas, water and electricity companies as well as other highly regulated sectors such as telecommunications and in industries facing significant disruption from technology and market changes.

Dr Scheinkestel is a former banking executive and has significant experience in international and project financing. She has extensive financial and risk management expertise, which includes having chaired the audit and risk committees of a number of listed companies. She is currently Chairman of Atlas Arteria Limited and a non-executive director of Atlas Arteria International Limited and Telstra Corporation Limited. She is also a Trustee of the Victorian Arts Centre Trust.

She is a published author of Rethinking Project Finance – Allocating and Mitigating Risk in Australasian Projects. Dr Scheinkestel is an Associate Professor in the Melbourne Business School at Melbourne University, a former member of the Takeovers Panel and was awarded a Centenary Medal for services to Australian society in business leadership.

Tan Chee Meng

Bachelor of Engineering (Honours), University of Canterbury, New Zealand
Bachelor of Laws (Honours), National University of Singapore
Master of Laws (First Class), University of Cambridge, UK

Non-Executive Director. Mr Tan has been a Non-Executive Director of AusNet Services since May 2016.

Mr Tan has dual qualifications in engineering and law and has over 30 years' experience in the legal industry, practising in the areas of general civil litigation, construction and engineering dispute resolution, criminal law, insurance, professional indemnity and disciplinary proceedings.

He also sits on the boards of Singapore Urban Redevelopment Authority and St Gabriel's Foundation. He is the Chairman of the School Management Committee of Assumption English School and a member of the Singapore Land Transport Authority's Kuala Lumpur-Singapore High Speed Rail Advisory Board. Mr Tan has also served as a Director of Singapore Power Limited.

Mr Tan spent his earlier career as a civil engineer before becoming a qualified legal practitioner holding offices of Deputy Senior State Counsel and Deputy Public Prosecutor in both the civil and criminal divisions of the Attorney-General's Chambers, and Deputy Director of the Commercial Affairs Department in Singapore. Mr Tan joined private practice in 1993, and was appointed Senior Counsel in 2006. He is currently the Deputy Chairman of WongPartnership LLP.

Company Secretary

The company secretary of AusNet Services is Paul Lynch.

Executive Management

The following table lists the Managing Director of the AusNet Services Group and his direct reports.

Name	Position
Tony Narvaez	Managing Director
Mark Ellul	Chief Financial Officer
Kent Barnes	Acting Executive General Manager — Governance
Prue Crawford-Flett	Executive General Manager — Operations and Services
Chad Hymas	Executive General Manager — Commercial Energy Services
Geraldine Leslie	Executive General Manager — People, Safety and Corporate Affairs
Alistair Parker	Executive General Manager — Regulated Energy Services
Mario Tieppo	Executive General Manager — Technology

Tony Narvaez

Managing Director. For information about Mr Narvaez, see “Board and Management — Directors” above.

Mark Ellul

Bachelor of Commerce, Melbourne University
Chartered Accountant

Chief Financial Officer — Responsible for Finance, Treasury, Procurement, Investor Relations, Taxation and the Cost-efficiency programme. Mr Ellul has been with AusNet Services since 2010, in various senior finance roles, including Corporate Accounting Manager and most recently as General Manager of Finance for AusNet Services' regulated business. Mr Ellul was appointed Chief Financial Officer on 9 December 2019 and has been acting Chief Financial Officer since 20 September 2019.

Prior to joining AusNet Services, Mark held senior corporate accounting and audit and assurance roles at Telstra and KPMG. Mark is a member of Chartered Accountants Australia and New Zealand (“CAANZ”) and a former member of the CAANZ Victorian Corporate Advisory Panel.

Kent Barnes

Certified Information Systems Auditor (CISA)

Acting Executive General Manager, Governance – Mr Barnes is responsible for the legal, company secretarial, risk management, and internal audit functions for AusNet Services, whilst maintaining his principle role as Head of Internal Audit.

Mr Barnes was appointed the Acting Executive General Manager, Governance in October 2019. He has extensive experience in the energy industry in governance, audit, information technology and financial accounting. Prior to joining AusNet Services, Mr Barnes previously worked as an IT Operations Manager for TXU Australia. He is a member of the Institute of Internal Auditors Australia.

Prue Crawford-Flett

Bachelor of Engineering, Royal Melbourne Institute of Technology
Masters of Business Administration, Monash University

Executive General Manager — Operations and Services. Ms Crawford-Flett has over 20 years experience in the energy, construction, renewable and electrical infrastructure industry focused on operational delivery and commercial contracting. Ms Crawford-Flett joined AusNet Services as a member of the executive team on 1 April 2019 leading the Operations and Services Division which brings together all field operations and service delivery to AusNet Services’ customers across the transmission, distribution and gas networks, including responsibility for network operations and customer engagement. Before joining AusNet Services Ms Crawford-Flett spent 15 years with CitiPower / Powercor as head of the national design and construction contracting business, joining Downer in 2016 as General Manager for Renewables and Power Systems business, responsible for development and execution of their growth strategy.

Chad Hymas

Bachelor of Business (Accounting), Monash University
Bachelor of Arts (Organisational Psychology), Monash University
Master of Business Administration, Deakin University
Certified Practising Accountant (ASCPA)

Executive General Manager — Mondo. Mr Hymas was appointed Executive General Manager - Mondo following three years as General Manager - Strategy and Business Development. In his role, Mr Hymas is responsible for the growth and strategic direction of the commercial business which brings unregulated infrastructure services, emerging energy markets, utility and metering services and asset intelligence services under one portfolio.

Mr Hymas' over 19 years' experience in the energy industry provides him with a deep understanding of the industry's strategic, commercial and regulatory drivers which are essential in assessing the immediate and long term growth opportunities for AusNet Services. In his previous role, Mr Hymas led a range of strategic transformational initiatives including implementing the company-wide enterprise planning system, process improvements and acquisitions the most notable being the Mortlake Terminal Station. Before moving into the energy industry, Mr Hymas started his career as an accountant with Arthur Andersen and Motorola Australia & New Zealand.

Geraldine Leslie

Bachelor of Arts, University of Wollongong
Master of Business Administration, University of Wollongong

Executive General Manager — People, Safety and Corporate Affairs. Ms Leslie joined the AusNet Services Group in November 2009. Her role incorporates responsibility for the AusNet Services Group’s human resources, health, safety environment and quality, corporate affairs and customer service functions. Prior to joining the AusNet Services Group, Ms Leslie worked with BlueScope Steel for almost 9 years in Senior HR Leadership roles, her last position being the General Manager Human Resources for BlueScope’s Australian Coated and Industrial Markets. Her background also incorporates various senior executive and leadership roles in the public health sector and local government.

Alistair Parker

Bachelor of Engineering (Honours), Aston University, UK
Master of Business Administration, Lancaster University, UK

Executive General Manager — Regulated Energy Services. Mr Parker has over 30 years of experience in the energy industry with a focus on network strategy, asset management and network regulation. From 2009, prior to his role as Executive General Manager – Regulated Energy Services at the AusNet Services Group, Mr Parker was General Manager – Asset Management and Director – Regulation and Network Strategy. Before moving to Australia, Mr Parker spent 15 years with National Grid in the UK, initially as an engineer then moving into commercial roles. In 2000, he became a consultant with Ernst & Young in New Zealand before moving to PricewaterhouseCoopers in Australia, ultimately as Melbourne Energy Economics Practice Leader.

Mario Tieppo

Bachelor of Business (Accounting),
Certified Practising Accountant (CPA)

Executive General Manager — Technology. Mr Tieppo has over 25 years’ experience in the information technology industry and has a strong track record of building technology functions and leading large organisational change programmes. Prior to joining the AusNet Services Group in 2013, he held the position of Chief Information Officer for SA Power Networks. Mr Tieppo has also held senior executive positions in the agriculture, government, postal utilities, retail and logistics sectors. In previous positions, Mr Tieppo has been responsible for strategy and planning, programme and project management and the management of mission critical information systems. He is a Certified Practising Accountant, has completed the Advanced Management Programme at INSEAD and has a strong background in financial management, audit and procurement.

At the AusNet Services Group, Mr Tieppo is responsible for Digital technology, innovation and telecommunications functions of the business. This includes the provision of information systems, network operations systems and telecommunications for the AusNet Services Group’s three network businesses and its commercial energy services business, Mondo.

Board of Directors for the Issuer and the Guarantors

The directors of the Issuer and the Guarantors are Tony Narvaez, Mark Ellul and Alistair Parker.

Tony Narvaez

For information about Mr Narvaez, see “— Board and Management — Directors” above.

Mark Ellul

For information about Mr Ellul, see “— Board and Management — Executive Management” above.

Alistair Parker

For information about Mr Parker, see “— Board and Management — Executive Management” above.

TAX CONSIDERATIONS

Australian Tax Considerations

The following is a summary of the Australian withholding tax treatment under the Income Tax Assessment Acts of 1936 and 1997 of Australia (together, “**Australian Tax Act**”) and the Taxation Administration Act 1953 of Australia, at the date of this Offering Circular, of payments of interest (as defined in the Australian Tax Act) in relation to the Notes to be issued by the Issuer under the Programme and certain other Australian tax matters. It is intended only as a general summary of the Australian taxation treatment for investors who purchase Notes (“**Noteholders**”) and should not be relied upon as legal or tax advice in relation to their particular circumstances.

This summary is not exhaustive and, in particular, does not deal with the position of certain classes of Noteholders (including, without limitation, dealers in securities, custodians or other third parties who hold Notes on behalf of any person), nor does it deal with partly paid, indexed or zero coupon notes. In addition, unless expressly stated, this summary does not consider the Australian tax consequences for persons who hold interests in the Notes through Austraclear, Euroclear, Clearstream, Luxembourg or another clearing system.

Noteholders should also be aware that particular terms of issue of any Series of Notes may affect the tax treatment of that and other Series of Notes.

Noteholders should seek their own independent legal and taxation advice based upon their specific circumstances.

Interest Withholding Tax

An exemption from Australian interest withholding tax imposed under Division 11A of Part III of the Australian Tax Act (“**Australian IWT**”) is available, in respect of Notes issued by the Issuer, under section 128F of the Australian Tax Act if the following conditions are met:

- (a) the Issuer remains a resident of Australia when it issues those Notes and when interest (as defined in section 128A(1AB) of the Australian Tax Act) is paid. Interest is defined to include amounts in the nature of, or in substitution for, interest and certain other amounts;
- (b) the Notes constitute a debenture and a debt interest; and
- (c) the issue of those Notes satisfies the public offer test.

Public offer test

Where Notes constitute a debenture, there are five principal methods of satisfying the public offer test, the purpose of which is to ensure that lenders in overseas capital markets are aware that the Issuer is offering those Notes for issue. In summary, the five methods are to offer the Notes:

- to 10 or more unrelated persons, each of whom carries on the business of providing finance or investing or dealing in securities, in the course of operating in financial markets;
- to 100 or more investors whom it is reasonable for the Issuer to regard as either having acquired debentures in the past or to be likely to be interested in acquiring debentures;
- as a result of being accepted for listing on a stock exchange under an agreement requiring listing;
- as a result of negotiations being initiated in publicly available information sources; or
- to a dealer, manager or underwriter who offers to sell those Notes within 30 days by one of the preceding methods.

The issue of a Global Note also satisfies the public offer test if it is a ‘global bond’. In summary, a Global Note is a global bond for the purposes of the public offer test if all of the following conditions are met:

- the Global Note is described as a global bond or a global note;
- it is issued to a clearing house or a trustee or agent for or on behalf of one or more clearing houses (e.g. a common depository);
- in connection with the issue, the clearing house confers rights in relation to the Global Note on other persons (i.e. the investors) and records the existence of those rights;
- before the issue of the Global Note, the Issuer or a dealer, manager or underwriter, in relation to the placement of the Global Note, acting on behalf of the Issuer, announces that such rights will be able to be created as a result of the issue;
- the announcement is made using one of the above five methods; and
- the terms of the Global Note provide that interests in the Global Note are able to be surrendered, whether or not in particular circumstances, in exchange for other debentures or debt interests issued by the Issuer that are not themselves global bonds.

Subject to the comments on the meaning of "associate" below, the following conditions will also need to be satisfied in order for the public offer test to apply:

- (a) the Issuer does not know, or have reasonable grounds to suspect, at the time of issue, that those Notes or interests in those Notes were being, or would be, acquired, directly or indirectly, by an "associate" of the Issuer (except as permitted by section 128F(5) of the Australian Tax Act (see below));
- (b) at the time of the payment of interest, the Issuer does not know, or have reasonable grounds to suspect, that the payee is an "associate" of the Issuer not acting in the capacity of a clearing house, paying agent, custodian, funds manager or responsible entity of a registered scheme (except as permitted by section 128F(6) of the Australian Tax Act (see below)).

Associates

An "**associate**" of the Issuer for the purposes of section 128F of the Australian Tax Act includes:

- (i) a person or entity which (together with associates) holds more than 50% of the voting shares of, or otherwise controls, the Issuer;
- (ii) an entity in which more than 50% of the voting shares are held by, or which is otherwise controlled by, the Issuer;
- (iii) a trustee of a trust where the Issuer is capable of benefiting (whether directly or indirectly) under that trust; and
- (iv) a person or entity who is an "associate" of another person or company which is an "associate" of the Issuer under paragraph (i) above.

However, for the purposes of sections 128F(5) and 128F(6) of the Australian Tax Act (see paragraphs (a) and (b) above), the "associate" provisions do not apply where the associate is an:

- (A) onshore associate (i.e. an Australian resident associate who has not acquired the Notes in the course of carrying on business at or through a permanent establishment outside Australia or a non-resident associate who has acquired the Notes in the course of carrying on business through a permanent establishment in Australia); or
- (B) offshore associate (i.e. an Australian resident associate who has acquired the Notes in the course of carrying on business at or through a permanent establishment outside Australia or a non-resident associate who has not

acquired the Notes in the course of carrying on business at or through a permanent establishment in Australia) who is acting in the capacity of:

- (1) in the case of section 128F(5), a dealer, manager or underwriter in relation to the placement of the Notes, a clearing house, custodian, funds manager or responsible entity of a registered scheme;
- (2) in the case of section 128F(6), a clearing house, paying agent, custodian, funds manager or responsible entity of a registered scheme.

Compliance with Section 128F of the Australian Tax Act

Unless otherwise specified in the applicable Pricing Supplement (or another relevant supplement to this Offering Circular), the Issuer intends to issue Notes in a manner which will satisfy the requirements of section 128F of the Australian Tax Act.

Noteholders who are Residents of Specified Countries

The Australian government has signed new or amended double tax conventions (“**New Treaties**”) with a number of countries (each a “**Specified Country**”). The New Treaties apply to interest derived by a resident of a Specified Country.

Broadly, the New Treaties effectively prevent Australian IWT applying to interest derived by:

- governments of the Specified Countries and certain governmental authorities and agencies in a Specified Country; and
- a “financial institution” resident in a Specified Country which is unrelated to and dealing wholly independently with the Issuer. The term “financial institution” refers to either a bank or any other enterprise which substantially derives its profits by carrying on a business of raising and providing finance. However, interest paid under a back to back loan or an economically equivalent arrangement will not qualify for this exemption.

The Australian Federal Treasury maintains a listing of Australia’s double tax conventions, which is available to the public on the Federal Treasury Department’s website.

Section 126 of the Australian Tax Act

Section 126 of the Australian Tax Act imposes a type of withholding tax (see below in relation to the rate of withholding tax) on the payment of interest on the Notes (if in bearer form) if the Issuer fails to disclose the names and addresses of the holders to the Australian Taxation Office (“**ATO**”).

Section 126 does not however apply to the payment of interest on Notes held by non-Australian residents who do not carry on business at or through a permanent establishment in Australia, where the issue of those Notes has satisfied the requirements of section 128F of the Australian Tax Act or Australian IWT is payable.

In addition, the ATO has confirmed that for the purpose of section 126 of the Australian Tax Act that the holder of debentures (such as the Notes) means the person in possession of the debentures. Section 126 is therefore limited in its application to persons in possession of Notes in bearer form, who are residents of Australia or non-Australian residents who are engaged in carrying on business in Australia at or through a permanent establishment in Australia. Where interests in Notes are held through Euroclear or Clearstream, Luxembourg or another clearing system, the Issuer intends to treat the operators of those clearing systems as the holders of those Notes for the purposes of section 126 of the Australian Tax Act.

The rate of withholding tax is currently 45%.

Payment of Additional Amounts

As set out in more detail in the relevant Terms and Conditions for the Notes, and unless expressly provided to the contrary in the applicable Pricing Supplement (or another relevant supplement to this Offering Circular), if the Issuer is at any time required by law to deduct or withhold an amount in respect of any Australian withholding taxes imposed or levied by the Commonwealth of Australia in respect of Notes, the Issuer must, subject to certain exceptions, pay such additional amounts as may be necessary in order to ensure that the net amounts received by the holders of those Notes after such deduction or withholding are equal to the respective amounts which would have been received had no such deduction or withholding been required. If as a result of a change in law or its application or interpretation the Issuer is required in relation to any Notes to deduct or withhold an amount in respect of any withholding taxes, the Issuer will have the option to redeem (all but not some of) those Notes in accordance with the relevant Terms and Conditions.

Payments Under the Guarantee

It is unclear whether or not any payment by a Guarantor under the Guarantee on account of interest owing by the Issuer in respect of the Notes would be subject to Australian IWT. There are good arguments that such payments (other than interest paid on an overdue amount) do not constitute “interest” for Australian withholding tax purposes, and, if so, would not be subject to Australian IWT.

The Australian Taxation Office has, however, published a Taxation Determination stating that payments by a guarantor in respect of debentures (such as the Notes) are entitled to the benefit of the exemption contained in section 128F of the Australian Tax Act if payments of interest in respect of those debentures by the Issuer are exempt from Australian IWT under section 128F. However, there is some doubt as to whether the Taxation Determination applies in the context of the Guarantee and whether the reasoning adopted in the Taxation Determination is strictly correct.

If such payments are characterised as “interest” for Australian withholding tax purposes, Australian IWT at the rate of 10% will be payable on payments of interest (as defined in section 128A(1AB) of the Australian Tax Act) by the Guarantor to non-residents (other than non-residents holding Notes in the course of carrying on a business at or through a permanent establishment in Australia) or residents of Australia holding Notes in the course of carrying on a business at or through a permanent establishment outside Australia.

If a Guarantor is at any time required by law to deduct or withhold an amount in respect of any Australian withholding taxes imposed or levied by the Commonwealth of Australia in respect of payments under the Guarantee, that Guarantor must, subject to certain exceptions, pay such additional amounts as may be necessary in order to ensure that the net amounts received by the holders of those Notes after such deduction or withholding are equal to the respective amounts which would have been received had no such deduction or withholding been required.

Other Tax Matters

Under Australian laws as presently in effect:

- (a) *income tax—offshore Noteholders*—assuming the requirements of section 128F of the Australian Tax Act are satisfied with respect to any Notes, payment of principal and interest to a holder of such Notes, who is a non-resident of Australia and who, during the taxable year, does not hold such Notes in the course of carrying on business at or through a permanent establishment in Australia, will not be subject to Australian income taxes; and
- (b) *income tax—Australian Holders*—Australian residents or non-Australian residents who hold Notes in the course of carrying on business at or through a permanent establishment in Australia (“**Australian Holders**”), will be assessable for Australian tax purposes on income either received or credited due to them in respect of the Notes. Whether income will be recognised on a cash receipts or accruals basis will depend upon the tax status of the particular Noteholders and the Terms and Conditions of the Notes. Special rules apply to the taxation of Australian residents who hold Notes in the course of carrying on business at or through a

permanent establishment outside Australia which vary depending on the country in which that permanent establishment is located; and

- (c) *gains on disposal of Notes—offshore Noteholders*—a holder of Notes, who is a non-resident of Australia and who, during the taxable year, does not hold Notes in the course of carrying on business at or through a permanent establishment in Australia, will not be subject to Australian income tax on gains realised during that year on the sale or redemption of such Notes, provided such a gain does not have an Australian source. A gain arising on the sale of Notes by a non-Australian resident holder to another non-Australian resident should not be regarded as having an Australian source where such Notes are sold outside Australia and all negotiations are conducted, and documentation executed, outside Australia.; and
- (d) *gains on disposal of Notes—Australian Holders*—Australian Holders will be required to include any gain or loss on disposal of Notes in their taxable income. Special rules apply to the taxation of Australian residents who hold Notes in the course of carrying on business at or through a permanent establishment outside Australia which vary depending on the country in which that permanent establishment is located; and
- (e) *deemed interest*—there are specific rules that can apply to treat a portion of the purchase price of Notes as interest for withholding tax purposes when certain Notes originally issued at a discount or with a maturity premium or which do not pay interest at least annually are sold to an Australian resident (who does not acquire them in the course of carrying on business at or through a permanent establishment outside Australia) or a non-resident who acquires them in the course of carrying on business at or through a permanent establishment in Australia. These rules do not apply in circumstances where the deemed interest would have been exempt under section 128F of the Australian Tax Act if the Notes had been held to maturity by a non-resident; and
- (f) *death duties*—no Notes will be subject to death, estate or succession duties imposed by Australia, or by any political subdivision or authority therein having power to tax, if held at the time of death; and
- (g) *stamp duty and other taxes*—no ad valorem stamp, issue, registration or similar taxes are payable in Australia on the issue, transfer or redemption of any Notes; and
- (h) *TFN/ABN withholding* — withholding tax is imposed (see below in relation to the rate of withholding tax) on the payment of interest on certain registered securities unless the relevant payee has quoted an Australian tax file number (“**TFN**”), (in certain circumstances) an Australian Business Number (“**ABN**”) or proof of some other exception (as appropriate).

Assuming the requirements of section 128F of the Australian Tax Act are satisfied with respect to the Notes, then such withholding should not apply to payments to a non-resident of Australia for tax purposes who does not hold the Notes through an Australian permanent establishment.

The current rate of withholding is 47%; and

- (i) *supply withholding tax*—payments in respect of Notes can be made free and clear of the “supply withholding tax” imposed under section 12-190 of the Taxation Administration Act; and
- (j) *goods and services tax (GST)*—neither the issue nor receipt of Notes will give rise to a liability for GST in Australia on the basis that the supply of Notes will comprise either an input taxed financial supply or (in the case of an offshore subscriber) a GST-free supply. Furthermore, neither the payment of principal or interest by the Issuer, nor the disposal of Notes, would give rise to any GST liability in Australia; and
- (k) *additional withholdings from certain payments to non-residents*—Section 12-315 of the Taxation Administration Act gives the Governor-General power to make regulations requiring withholding from certain payments to non-residents. Regulations may only be made if the responsible Minister is satisfied the specified payments are of a kind that could reasonably relate to assessable income of foreign residents. The current regulations do not apply to the payments in respect of any Notes or payments by a Guarantor under the Guarantee. The possible release of future regulations should be monitored;

- (l) *garnishee directions*—the Commissioner of Taxation for Australia may give a direction under section 255 of the Australian Tax Act or section 260-5 of Schedule 1 to the Taxation Administration Act or any similar provision requiring the Issuer or a Guarantor to deduct or withhold from any payment to any other party (including any holder of Notes) any amount in respect of tax payable by that other party. If the Issuer or a Guarantor is served with such a direction, the Issuer and the Guarantors intend to comply with that direction and make any deduction or withholding required by that direction; and
- (m) *taxation of financial arrangements*—Division 230 of the Australian Tax Act contains tax-timing rules for certain taxpayers to bring to account gains and losses from “financial arrangements”. The rules in Division 230 do not apply to impose interest or other withholding taxes on payments in respect of the Notes.

Common Reporting Standard

The OECD Common Reporting Standard for Automatic Exchange of Financial Account Information (“**CRS**”) requires certain financial institutions to report information regarding certain accounts (which may include the Notes) to their local tax authority and follow related due diligence procedures. Noteholders may be requested to provide certain information and certifications to ensure compliance with the CRS. A jurisdiction that has signed a CRS Competent Authority Agreement may provide this information to other jurisdictions that have signed the CRS Competent Authority Agreement. The CRS applies to Australian financial institutions with effect from 1 July 2017.

Proposed Financial Transaction Tax (“FTT”)

On 14 February 2013, the European Commission published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**Participating Member States**”). However, Estonia has since stated that it will not participate.

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article (5)(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, “established” in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

However, the FTT proposal remains subject to negotiation between the Participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

FATCA

Pursuant to the foreign account tax compliance provisions of the U.S. Hiring Incentives to Restore Employment Act of 2010 (commonly known as “**FATCA**”), non-U.S. financial institutions (“**FFIs**”) that enter into agreements with the U.S. Internal Revenue Service (“**IRS Agreements**”) or become subject to provisions of local law intended to implement an intergovernmental agreement (“**IGA legislation**”) entered into pursuant to FATCA, may be required to identify “financial accounts” held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other financial institutions that are not themselves participating in (or otherwise exempt from) the FATCA reporting regime.

In order (a) to obtain an exemption from FATCA withholding on payments it receives and/or (b) to comply with any applicable laws in its jurisdiction, a financial institution that enters into an IRS Agreement or is subject to IGA legislation may be required to (i) report certain information on its U.S. account holders to the government of the United States or another relevant jurisdiction and (ii) withhold 30% from all, or a portion of, certain payments made to persons that fail to provide the financial institution information and forms or other documentation that may be necessary for such financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding.

Under FATCA, withholding may be imposed with respect to payments to persons that are not compliant with FATCA or that do not provide the necessary information or documentation made (i) in respect of certain U.S. source payments and (ii) in respect of “foreign passthru payments” (a term not yet defined under FATCA) and then (in the case of an obligation that pays only foreign passthru payments) only on “obligations” that are not treated as equity for U.S. federal income tax purposes and that are issued or materially modified after the date that is six months after the date on which the final regulations defining the term “foreign passthru payments” are filed in the U.S. Federal Register. In any event, FATCA withholding is not expected to apply on payments made before the date that is two years after the date on which final regulations defining the term “foreign passthru payments” are filed in the U.S. Federal Register.

Whilst the Notes are in global form and held within the Clearing Systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain beginning with the Issuer and ending with the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive Notes will only be printed in remote circumstances.

Australia and the United States signed an intergovernmental agreement (“**Australian IGA**”) in respect of FATCA on 28 April 2014. The Australian Government has enacted legislation amending, among other things, the Taxation Administration Act 1953 of Australia to give effect to the Australian IGA (“**Australian Amendments**”). Depending on the nature of the relevant FFI, FATCA withholding may not be required from payments made with respect to the Notes other than in certain prescribed circumstances. Under the Australian Amendments, an FFI may be required to provide the Australian Taxation Office with information on financial accounts (for example, the Notes) held by U.S. persons and recalcitrant account holders. The Australian Taxation Office is required to provide that information to the U.S. Internal Revenue Service.

In the event that any amount is required to be withheld or deducted from a payment on the Notes as a result of FATCA, pursuant to the terms and conditions of the Notes, no additional amounts will be paid by the Issuer or any other person through whom payments on the Notes are made as a result of the deduction or withholding.

FATCA is particularly complex legislation.

Investors should consult their own tax advisers to determine how these rules may apply to them under the Notes.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated Dealer Agreement dated 28 January 2014 as amended by side letters on 6 February 2015, 15 March 2016, 14 February 2018 and 6 February 2020 (the “**Dealer Agreement**”) between the Issuer, the Guarantors, the Permanent Dealers and the Arrangers, Notes may be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arrangers for certain of their expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of any Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

General

These selling restrictions below may be modified by the agreement of the Issuer, the Guarantors and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the applicable Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Offering Circular or any other offering material or any Pricing Supplement, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes, or has in its possession or distributes the Offering Circular, any other offering material or any Pricing Supplement and neither the Issuer, the Guarantors nor any other Dealer shall have responsibility therefor.

United States

The Notes and the Guarantees have not been and will not be registered under the Securities Act and, subject to certain exceptions, the Notes may not be offered or sold within the United States. Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer, or sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Principal Paying Agent by such Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Principal Paying

Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of such Notes, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such notes, which additional selling restrictions shall be set out in the applicable pricing supplement.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or as agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Singapore

Each of the Dealers has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

SINGAPORE SECURITIES AND FUTURES ACT PRODUCT CLASSIFICATION – In connection with Section 309B of the SFA and the CMP Regulations 2018, unless otherwise stated in the relevant Pricing Supplement in respect of any offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are “prescribed capital markets products” (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Hong Kong

In relation to each tranche of Notes issued by the Issuer, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purpose of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**FIEA**”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not directly or indirectly offered or sold and will not directly or indirectly offer or sell any Notes, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity recognised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other relevant laws and regulations and ministerial guidelines of Japan.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the “**Corporations Act**”)) in relation to the Programme or the Notes has been or will be lodged with, or registered by, the Australian Securities and Investments Commission (“**ASIC**”). Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it:

- (a) has not (directly or indirectly) made or invited, and will not make or invite, an offer of the Notes for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, any offering circular, information memorandum or any other offering material or advertisement relating to the Notes in Australia,

unless (a) the aggregate consideration payable by each offeree is at least A\$500,000 (or its equivalent in an alternate currency, and in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors under Parts 6D.2 or 7.9 of the Corporations Act, (b) the offer or invitation does not constitute an offer to a “**retail client**” as defined for the purposes of Section 761G of the Corporations Act, (c) such action complies with all applicable laws, regulations and directives in Australia (including, without limitation, the licensing requirements set out in Chapter 7 of the Corporations Act), and (d) such action does not require any document to be lodged with ASIC, or any other regulatory authority in Australia.

New Zealand

No product disclosure statement or similar document has been or will be prepared, lodged or registered in relation to the Programme or any Notes under the Financial Markets Conduct Act 2013 (NZ) (“**NZ FMC Act**”) and no action has been taken to permit the Notes to be directly or indirectly offered or sold to any retail investor, or otherwise under any regulated offer, in terms of the NZ FMC Act.

Each Dealer has represented and undertaken, and each further Dealer appointed under the Programme will be required to represent and undertake, that Notes are not and will not be offered, sold or delivered, directly or indirectly, nor will any product disclosure statement, information memorandum, advertisement (as defined in the NZ FMC Act) or offering material in relation to the Programme or to any offer of the Notes be distributed, in New Zealand other than:

- (i) to any person who is an investment business (as defined in clause 37 of Schedule 1 of the NZ FMC Act), or
- (ii) to any person who is large (as defined in clause 39 of Schedule 1 of the NZ FMC Act), or
- (iii) to any person who is a government agency (as defined in clause 40 of Schedule 1 of the NZ FMC Act).

For the avoidance of doubt, the Notes may not be directly or indirectly offered, sold or delivered to, amongst others, any “eligible investors” (as defined in clause 41 of Schedule 1 of the NZ FMC Act) or to any person who, under

clause 3(2)(b) of Schedule 1 of the NZ FMC Act, meets the investment activity criteria specified in clause 38 of that Schedule.

Each Dealer has represented and undertaken that it will not subscribe for, offer, sell or deliver any Notes, or distribute any product disclosure statement, information memorandum, advertisement (as defined in the NZ FMC Act) or offering material relating to the Programme or Notes, in a manner which constitutes a regulated offer under the NZ FMC Act. In particular, no Dealer will offer for sale any Notes to any person in New Zealand in breach of the NZ FMC Act, or as if it were being offered under a regulated offer under the NZ FMC Act or in circumstances which may result in the Issuer, the Guarantors or their respective directors incurring any liability.

Each Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to represent and agree that, in relation to Notes issued by the Issuer, it has not offered or sold, and will not offer or sell, any Notes to persons such that the beneficial owner of a Note (being the person beneficially entitled to interest or other proceeds in respect of the Notes) is, for the purposes of the Income Tax Act 2007 (New Zealand) resident in New Zealand, or not resident in New Zealand but carrying on business in New Zealand through a fixed establishment in New Zealand, unless such persons certify that the beneficial owner holds a valid certificate of exemption for New Zealand resident withholding tax purposes and provide a copy of such certificate of exemption and the beneficial owner's New Zealand tax file number to such Dealer (in which event the Dealer shall provide details thereof to the Issuer or to a Paying Agent).

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes, which are the subject of the offering contemplated by this Offering Circular as completed by the applicable Pricing Supplement in relation thereto, to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “**Prospectus Regulation**”); and
- (b) the expression an “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the relevant Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the European Economic Area, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation, or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression “**Prospectus Regulation**” means Regulation (EU) 2017/1129.

INDEPENDENT AUDITORS

The financial statements of AusNet Services as at, and for the financial years ended 31 March 2019 and 31 March 2018 included in this Offering Circular have been audited by KPMG, independent auditors, as set forth in their reports thereon included herein.

With respect to the unaudited interim financial statements for the periods ended 30 September 2019 and 30 September 2018, included herein, the independent auditors have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein, states that they did not audit and they do not express an opinion on the interim financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The liability of KPMG, in relation to the performance of their professional services provided to AusNet Services Group including, without limitation, KPMG's audits of AusNet Services Group's consolidated financial statements described above, is limited under the Institute of Chartered Accountants in Australia (VIC) Scheme approved by the Victoria Professional Standards Council or such other applicable scheme approved pursuant to the Professional Standards Act 2003 (Vic), including the Treasury Legislation Amendment (Professional Standards) Act.

GENERAL INFORMATION

1. Notes will be accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code, the International Securities Identification Number (“ISIN”) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Pricing Supplement.
2. The Issuer and the Guarantors have obtained all necessary consents, approvals and authorisations in Australia in connection with the establishment and update of the Programme. The establishment and update of the Programme were authorised by resolutions passed by the Board of Directors of the Issuer on 25 October 2004 and 5 February 2020, respectively. The guarantee of Notes issued by the Issuer has been authorised by a resolution passed by the Board of Directors of each of AusNet Gas Services Pty Ltd, AusNet Electricity Services Pty Ltd and AusNet Asset Services Pty Ltd on 25 October 2004 and of AusNet Transmission Group Pty Ltd on 3 July 2007 and again in respect of each of the Guarantors on 5 February 2020.
3. Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position since 30 September 2019, and no material adverse change in the financial position or prospects, of the AusNet Services Group since 31 March 2019, the date of its last reviewed financial statements.
4. Except as disclosed in this Offering Circular, neither the Issuer nor any Guarantor is nor has been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or any Guarantor is aware) during the 12 months preceding the date of this Offering Circular which may have or has had in the recent past material effects on the financial position or profitability of the Issuer or any Guarantor.
5. Each Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code”.
6. The Notes are freely tradable securities. However, there are certain restrictions as to the offer, sale and transfer of Notes as set out herein. See “Subscription and Sale”.
7. For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Principal Paying Agent:
 - (i) the Trust Deed (which includes the form of the Global Notes, the definitive Notes, the Coupons, the Receipts and the Talons);
 - (ii) the Dealer Agreement;
 - (iii) the Agency Agreement;
 - (iv) the Constitution of the Issuer;
 - (v) the latest published audited financial statements of the AusNet Services Group and the latest published interim financial statements of the AusNet Services Group;
 - (vi) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Trustee as to its holding of Notes and identity);

- (vii) a copy of this Offering Circular together with any Supplement to this Offering Circular or further Offering Circular; and
- 8. KPMG has audited, and rendered unqualified audit reports on, the financial statements of the AusNet Services Group for the past five years ended 31 March 2019. KPMG has also prepared an independent auditors' review report for the six month periods ended 30 September 2019 and 2018.
- 9. The Legal Entity Identifier of the Issuer is TTMIG9TE1S0X3ZPDHD61.

FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Pricing Supplement dated []

AusNet Services Holdings Pty Ltd

Issue of [*Aggregate nominal amount of Tranche*] [Title of Notes]

[Guaranteed by AusNet Asset Services Pty Ltd, AusNet Electricity Services Pty Ltd, AusNet Gas Services Pty Ltd and AusNet Transmission Group Pty Ltd]

under the U.S.\$5,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 6 February 2020. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS] - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]¹⁰

[MiFID II product governance / Professional investors and ECPs only target market] – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[SINGAPORE SECURITIES AND FUTURES ACT PRODUCT CLASSIFICATION] – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes [are] / [are not] [prescribed capital markets products] / [capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as

¹⁰ To be included if the Notes may constitute “packaged” products.

defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.¹¹

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Offering Circular dated [•]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date], save in respect of the Conditions which are extracted from the Offering Circular dated [•] and are attached hereto.

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in another currency]

- | | | |
|---|-----------------------------------|---|
| 1 | (i) Issuer: | AusNet Services Holdings Pty Ltd (ABN 97 086 006 859) |
| | (ii) Guarantor(s): | [AusNet Asset Services Pty Ltd (ABN 27 075 826 881), AusNet Electricity Services Pty Ltd (ABN 91 064 651 118), AusNet Gas Services Pty Ltd (ABN 43 086 015 036) and AusNet Transmission Group Pty Ltd (ABN 78 079 798 173)] |
| 2 | [(i)] Series Number: | [] |
| | [(ii)] Tranche Number: | [] |
| | | <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]</i> |
| 3 | Specified Currency or Currencies: | [] |
| 4 | Aggregate Nominal Amount: | |
| | [(i)] Series: | [] |
| | [(ii)] Tranche: | [] |
| 5 | [(i)] Issue Price: | [] per cent. of the Aggregate Nominal Amount [plus accrued interest from <i>[insert date]</i> (<i>in the case of fungible issues only, if applicable</i>)] |
| | [(ii)] Net proceeds: | [] (<i>Required only for listed issues</i>) |
| 6 | (i) Specified Denominations: | [] |
| | (ii) Calculation Amount | [] |
| 7 | [(i)] Issue Date: | [] |
| | (ii) Interest Commencement Date: | [] |

¹¹ For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

8	Maturity Date:	<i>[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]</i>
9	Interest Basis:	[[] per cent. Fixed Rate] [[LIBOR/EURIBOR] +/- [] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [Other (<i>specify</i>)] (further particulars specified below)
10	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [Other (<i>specify</i>)]
11	Change of Interest or Redemption/Payment Basis:	<i>[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]</i>
12	Put/Call Options:	[Put Option] [Call Option] [(further particulars specified below)]
13	(i) Status of the Notes:	Senior
	(ii) Status of the Guarantee:	Senior
14	Listing:	[(<i>specify</i>)/None]
15	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Rate[(s)] of Interest:	[] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii) Interest Payment Date(s):	[] in each year up to [adjusted in accordance with <i>[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]</i> /not adjusted]
	(iii) Fixed Coupon Amount[(s)]:	[] per [] in Calculation Amount

	(iv) Broken Amount:	[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []
	(v) Day Count Fraction:	[30/360/Actual/Actual [ICMA/ISDA] /other]
	(vi) Determination Date(s):	[] in each year. <i>[insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]</i> <i>N.B. Only relevant where Day Count fraction is Actual/Actual</i>
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
17	Floating Rate Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Interest Period(s):	[]
	(ii) Specified Interest Payment Dates:	[]
	(iii) Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other <i>(give details)</i>]
	(iv) Business Centre(s):	[]
	(v) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other <i>(give details)</i>]
	(vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Calculation] Agent):	[]
	(vii) Screen Rate Determination	
	• Reference Rate:	[]
	• Interest Determination Date(s):	[]
	• Relevant Screen Page:	[]
	(viii) ISDA Determination:	
	• Floating Rate Option:	[]
	• Designated Maturity:	[]
	• Reset Date:	[]
	(ix) Margin(s):	[+/-] [] per cent. per annum
	(x) Minimum Rate of Interest:	[] per cent. per annum
	(xi) Maximum Rate of Interest:	[] per cent. per annum

	(xii) Day Count Fraction:	[]
	(xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[]
18	Zero Coupon Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(a) Accrual Yield:	[] per cent. per annum
	(b) Reference Price:	[]
	(c) Any other formula/basis of determining amount payable:	[]
	(d) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 8(e) and 8(j) apply/specify other] <i>(Consider applicable day count fraction if not U.S. dollar denominated)</i>
19	Index Linked Interest Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Index/Formula:	[Give or annex details]
	(ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Calculation] Agent):	[]
	(iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted:	[]
	(iv) Interest or calculation period(s):	[]
	(v) Specified Interest Payment Dates:	[]
	(vi) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other <i>(give details)</i>]
	(vii) Business Centre(s):	[]
	(viii) Minimum Rate of Interest:	[] per cent. per annum
	(ix) Maximum Rate of Interest:	[] per cent. per annum
	(x) Day Count Fraction:	[]
20	Dual Currency Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>

- | | | |
|-------|---|----------------|
| (i) | Rate of Exchange/Method of calculating Rate of Exchange: | [Give details] |
| (ii) | Party, if any, responsible for calculating Rate(s) of Interest and Interest Amount(s) (if not the [Calculation] Agent): | [] |
| (iii) | Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: | [] |
| (iv) | Person at whose option Specified Currency(ies) is/are payable: | [] |

PROVISIONS RELATING TO REDEMPTION

- | | | |
|----|--|---|
| 21 | Call Option | [Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i> |
| | (i) Optional Redemption Date(s): | |
| | (ii) Optional Redemption Amount(s) of each Note and specified denomination method, if any, of calculation of such amount(s): | [] per Calculation Amount |
| | (iii) If redeemable in part: | |
| | (a) Minimum Redemption Amount: | [] per Calculation Amount |
| | (b) Maximum Redemption Amount: | [] per Calculation Amount |
| | (c) Make-Whole Spread: | [] |
| | (iv) Notice period: | [] |
| | (v) Basis for calculation of discount to Optional Redemption Date: | [Annual/Semi annual/other (specify)] |
| 22 | Put Option | [Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i> |
| | (i) Optional Redemption Date(s): | [] |
| | (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): | [] per Calculation Amount |
| | (iii) Notice period: | [] |
| 23 | Final Redemption Amount of each Note | [] per Calculation Amount |
| 24 | Early Redemption Amount(s) of each Note payable on redemption for taxation reasons (Condition 8(b)) or an event of default (Condition 11) and/or the method of | [] |

calculating the same (if required or if different from that set out in Condition 8(e)):

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25	Form of Notes:	Bearer Notes:
	(i) Temporary or permanent global Notes:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes only in the limited circumstances specified in the Temporary Global Note] [Permanent Global Note exchangeable for Definitive Notes only in the limited circumstances specified in the Permanent Global Note]
	(ii) Applicable TEFRA exemption:	[C Rules/D Rules/Not Applicable]
	(iii) Prohibition of Sales to European Economic Area Retail Investors:	[Applicable/Not Applicable] <i>(If the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the offer of the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)</i>
26	Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 16(ii), 17(iii) and 19(vii) relate]]
27	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. If yes, give details]
28	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/give details]
29	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/give details]
30	Redenomination, renominatisation and reconventioning provisions:	[Not Applicable/The provisions in Condition [] [annexed to this Pricing Supplement] apply]
31	Consolidation provisions:	[Not Applicable/The provisions in Condition [] [annexed to this Pricing Supplement] apply]

32 Rounding: [Not Applicable/*give details*]
 33 Other terms or special conditions: [Not Applicable/*give details*]

DISTRIBUTION

34 (i) If syndicated, names of Managers: [Not Applicable/*give names*]
 (ii) Stabilisation Manager (if any): [Not Applicable/*give name*]
 35 If non-syndicated, name of Dealer: [Not Applicable/*give name*]
 36 Additional selling restrictions: [Not Applicable/*give details*]

OPERATIONAL INFORMATION

37 ISIN Code: []
 38 Common Code: []
 39 Legal Entity Identifier (“**LEI**”): []
 40 Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]
 41 Delivery: Delivery [against/free of] payment
 42 Additional Agents appointed in respect of the Notes: []

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$5,000,000,000 Medium Term Note Programme of AusNet Services Holdings Pty Ltd.

RESPONSIBILITY

The Issuer [and the Guarantors] accept[s] responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: _____
 Duly authorised

By: _____
 Duly authorised

Signed on behalf of the Guarantors:

By: _____
 Duly authorised

By: _____
 Duly authorised

GLOSSARY

“2016 EDPR”	The Australian Energy Regulator’s 2016 Electricity Distribution Price Review dated 26 May 2016
“2P”	proven and probable
“A\$”	Australian dollars
“AASB”	Australian Accounting Standards Board
“AASB 9”	Accounting standard AASB 9 Financial Instruments
“AASB 119”	Accounting standard AASB 119 Employee Benefits
“ABN”	Australian Business Number
“ACCC”	Australian Competition and Consumer Commission
“ACRs”	Automatic Circuit Reclosers
“ACT”	Australian Competition Tribunal
“AEMA”	Australian Energy Market Agreement
“AEMC”	Australian Energy Markets Commission
“AEMO”	Australian Energy Market Operator
“AER”	Australian Energy Regulator
“Alternative Control, Ancillary and Negotiated Services”	Also referred to as Excluded Services, these are other services provided by the AusNet Services Group, including meter disconnection and reconnection, special meter reads, field officer visits and service truck visits
“AMI”	Advanced Metering Infrastructure
“AMI CROIC”	AMI Cost Recovery Order in Council
“AMS”	AusNet Services Group Asset Management System
“ARPANSA”	Australian Radiation Protection and Nuclear Safety Agency, a Commonwealth agency responsible for protecting the health and safety of people and the environment from the harmful effects of radiation
“Asset Management Strategy”	Asset Management Strategy of the AusNet Services Group
“ASIC”	Australian Securities and Investments Commission
“ASX” or “Australian Securities Exchange”	ASX Limited or the securities exchange which it operates
“ATO”	Australian Taxation Office
“AusNet Electricity Services”	AusNet Electricity Services Pty Ltd (ABN 91 064 651 118)

“AusNet Finance”	AusNet Finance Pty Ltd (ABN 69 092 341 690)
“AusNet Services”	As defined in the Terms and Conditions of the Notes
“AusNet Services Distribution”	AusNet Services (Distribution) Ltd (ABN 37 108 788 245)
“AusNet Services Finance Trust”	AusNet Services Finance Trust (ARSN 116 783 914)
“AusNet Services Group” or “Group”	As defined in the Terms and Conditions of the Notes
“AusNet Services (RE)”	AusNet Services (RE) Ltd (ABN 46 109 977 371), the trustee of the AusNet Services Finance Trust.
“AusNet Services Transmission”	AusNet Services (Transmission) Ltd (ABN 48 116 124 362)
“AusNet Transmission Group”	AusNet Transmission Group Pty Ltd (ABN 78 079 798 173)
“Australian Government”	The government of the Commonwealth of Australia
“Australian Tax Act”	Income Tax Assessment Acts of 1936 and 1997 of Australia
“CCA”	Competition and Consumer Act 2010 (Cth) of Australia (formerly the Trade Practices Act 1974 (Cth))
“COAG”	Council of Australian Governments
“Common Service”	As defined under the NER, “a service that ensures the integrity of a distribution system and benefits all Distribution Customers and cannot reasonably be allocated on a locational basis.”
“Commonwealth”	The Commonwealth of Australia
“Constitution Restriction”	The restriction on the power to issue shares and other equity interests set out in AusNet Services’ constitution
“Corporations Act”	Corporations Act 2001 (Cth) of Australia
“CPI”	The Australian Consumer Price Index published by the Australian Bureau of Statistics
“CROIC”	Cost Recovery Order in Councils
“CSG”	coal seam methane gas
“(Cth)”	Indicates federal legislation of the Commonwealth of Australia
“DNSP”	Distribution network service provider
“DRP”	Dividend Reinvestment Plan which provides eligible shareholders with a method of reinvesting all or part of their dividend in additional shares.
“DRP Approval”	The resolution passed by the shareholders of AusNet Services on 18 July 2019 to permit AusNet Services to issue shares pursuant to a DRP or any underwriting thereof at any time within 18 months of the date of the resolution (subject to any earlier revocation or amendment at a subsequent general meeting of AusNet Services).

“DUoS”	Distribution use of system charge
“EDPR”	Electricity Distribution Price Review
“EIA”	Electricity Industry Act 2000 (Vic) of Australia
“EMF”	Electric and magnetic fields
“Enterprise Agreements”	Union collective agreements
“ESC”	Essential Services Commission
“ESC Act”	Essential Services Commission Act 2001 (Vic) of Australia
“ESMSs”	Electricity Safety Management Schemes
“Excluded Services”	Also referred to as Alternative Control, Ancillary and Negotiated Services, these are other services provided by the AusNet Services Group, including meter disconnection and reconnection, customer transfers, special meter reads and maintenance charges for large customer installations
“Excluded Subsidiary”	As defined in the Terms and Conditions of the Notes.
“FATCA”	Sections 1471 to 1474 of the United States Internal Revenue Code of 1986 or any consolidation, amendment, re-enactment or replacement of those provisions and including any regulations or official interpretations issued, agreements (including, without limitation, intergovernmental agreements) entered into or non-United States laws enacted with respect thereto
“FFI”	Foreign financial institution
“GIA”	Gas Industry Act 2001 (Vic) of Australia
“GST”	goods and services tax
“Guarantor/Guarantors”	As described in the Terms and Conditions of the Notes
“GW”	gigawatt, a unit of power equal to one billion watts
“GWh”	gigawatt hour, a unit of energy equal to one billion watt hours
“ICNIRP”	International Commission on Non-Ionizing Radiation Protection, an independent scientific organisation, whose aims are to provide guidance and advice on the health hazards of non-ionizing radiation exposure
“Issuer”	AusNet Services Holdings Pty Ltd (ABN 97 086 006 859)
“Jemena”	SGSP (Australia) Assets Pty Ltd (“SGSPAA”) and its Subsidiaries trading as “Jemena” or “Zinfra Group” (as applicable)
“KPMG”	KPMG, an Australian partnership
“LNG”	Liquefied natural gas

“Management Agreement”	Services	The agreement (as amended) under which SPI Management Services acted as manager of the AusNet Services Group’s businesses
“MCE”		Ministerial Council on Energy
“MEB”		The merchant energy business that consisted of TXU Corp’s electricity generation, electricity and gas retail businesses and interest in the SEAGas gas pipeline
“MED”		Major Event Day as defined in the Service Target Performance Incentive Scheme. Any day where unplanned SAIDI exceeds the DNSP major event day boundary may be excluded when calculating the values of the parameters for the purpose of calculating the revenue increment or decrement resulting from this scheme
“Modern Awards”		Industry based Awards that contain the minimum employment standards set by the Fair Work Commission for that industry
“Mondo Power”		A brand formerly used by Mondo, the AusNet Services Group’s unregulated services business.
“Moody’s”		Moody’s Investors Services, Inc.
“MWh”		Megawatt hour, a unit of energy equal to one million watt hours
“National Grid”		The interconnected transmission network in Queensland, New South Wales, the Australian Capital Territory, Victoria, South Australia and Tasmania
“NECF”		National Energy Customer Framework
“NEL”		National Electricity Law
“NEM”		National Electricity Market
“NER”		National Electricity Rules
“NE(SA) Act”		National Electricity (South Australia) Act 1996 (SA)
“Network Agreement”		The network agreement between the AEMO and the AusNet Services Group dated 3 October 1994 that establishes the services and applicable terms and conditions
“Networks NSW ACT Decision”		Decision handed down by the Australian Competition Tribunal on 26 February 2016 in respect of appeals by the NSW and ACT distribution businesses in relation to the implementation of the 2013 Rate of Return Guideline
“NGER”		National Greenhouse and Energy Reporting Act 2007 (Cth)
“NGL”		National Gas Law
“NGR”		National Gas Rules
“NHMRC”		National Health and Medical Research Council

“NSW”	New South Wales
“PJ”	petajoules, a unit of energy equal to one quadrillion (10 ¹⁵) joules
“PVC”	Polyvinyl chloride
“Pro-Rata Issue Approval”	The resolution passed by the shareholders of AusNet Services on 18 July 2019 to make or grant an offer, agreement or option which would or might require shares to be issued to a maximum of 10% of issued share capital, where the offer to issue shares is made pursuant to a pro rata issue and any related underwriting and/or short fall arrangements at any time within 18 months of the date of the resolution (subject to any earlier revocation or amendment at a subsequent general meeting of AusNet Services)
“RAB”	The RAB represents the value, as assessed by the AER, of past regulated network investments as well as contracted transmission assets that will become regulated in subsequent price reviews. This is the value on which the AusNet Services Group can expect to earn a return (return on capital), and the value that is returned to the AusNet Services Group over the economic life of the assets (as regulatory depreciation). For each regulatory period, the RAB is adjusted for inflation, capital expenditure, depreciation, customer contributions and disposals. The AusNet Services Group’s regulated assets include ownership of the primary regulated Victorian electricity transmission network, together with an electricity distribution network located in eastern Victoria and a gas distribution network located in western Victoria. The calculation of the total RAB value is subject to some estimation as the AER ultimately determines the RAB of each network.
“REFCL”	Rapid Earth Fault Current Limiter
“Regulated/Contracted Asset Base”	Includes the RAB as well as contracted transmission assets whose revenues and returns are set by applying an approved negotiated price framework or competitively (including through tender or bilateral negotiations), rather than through price regulation, including, for example, the Victorian desalination contract;
“Restructure”	The corporate restructure under which the, then, Stapled Entities became wholly owned by AusNet Services and eligible securityholders received shares in AusNet Services in the same as proportion of the stapled securities previously held
“SWER”	Single Wire Earth Return
“Select Solutions”	A brand formerly used by Mondo, the AusNet Services Group’s unregulated services business.
“SGIAD”	State Grid International Australia Development Company Limited
“SGSPAA”	SGSP (Australia) Assets Pty Ltd

“SGX” or “SGX-ST”	Singapore Exchange Securities Trading Limited or the securities exchange which it operates
“Shared Transmission Service”	As defined by the AER, “a service provided to a Transmission Network User for use of a transmission network for the conveyance of electricity (including a service that ensures the integrity of the related transmission system).”
“SPI”	Singapore Power International Pte Ltd
“SPI Management Services”	SPI Management Services Pty Ltd
“Standard & Poor’s”	Standard & Poor’s Global Rating Services
“Stapled Entities”	AusNet Services (Distribution) Ltd (ABN 37 108 788 245), AusNet Services (Transmission) Ltd (ABN 48 116 124 362) and AusNet Services Finance Trust (ARSN 116 783 914) which, prior to the Restructure, were stapled together
“STPIS”	Service Target Performance Incentive Scheme
“Subsidiary”	As defined in the Terms and Conditions of the Notes
“Taxation Administration Act”	Taxation Administration Act 1953 of Australia
“TFN”	Tax file number
“Total Assets”	As defined in the Terms and Conditions of the Notes
“Total AusNet Services Group Assets”	As defined in the Terms and Conditions of the Notes
“Transmission System Maximum Demand”	The maximum amount of aggregated electricity recorded at entry points and interconnection points to the AusNet Services Group transmission network in each calendar year
“Transmission System Minutes”	A measure used by the AusNet Services Group to track the loss of supply to its transmission customers caused by the transmission system
“TRR”	Transmission Revenue Reset
“Trust Deed”	As defined in the Terms and Conditions of the Notes
“Trustee”	As defined in the Terms and Conditions of the Notes
“TUoS”	transmission use of system
“U.S.\$”	U.S. dollars
“(Vic)”	Indicates state legislation of the State of Victoria
“Victorian State Government”	The government of the State of Victoria
“WACC”	weighted average cost of capital

INDEX TO FINANCIAL STATEMENTS

Reviewed interim financial statements of AusNet Services for the six month period ended 30 September 2019.

Audited financial statements of AusNet Services for the financial year ended 31 March 2019.

Reviewed interim financial statements of AusNet Services for the six month period ended 30 September 2018.

Audited financial statements of AusNet Services for the financial year ended 31 March 2018.

AusNet Services Ltd
ACN 603 317 559

Interim Financial Report

For the financial period ended 30 September 2019

Contents	Page
Directors' report	3
Lead auditor's independence declaration	10
Consolidated interim income statement	11
Consolidated interim statement of comprehensive income	12
Consolidated interim statement of financial position	13
Consolidated interim statement of changes in equity	14
Consolidated interim statement of cash flows	16
Condensed notes to the consolidated interim financial statements	17
Directors' declaration	35
Independent auditor's review report	36

This interim financial report covers the consolidated entity consisting of AusNet Services Ltd and its subsidiaries. The interim financial report is presented in Australian dollars.

AusNet Services Ltd is a company limited by shares, incorporated and domiciled in Victoria, Australia. Its registered office and principal place of business is:

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of the Group for the year ended 31 March 2019 and any public announcements made by AusNet Services Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth).

The interim financial report was authorised for issue by the Directors on 12 November 2019.

Directors' Report

Introduction

The Directors of AusNet Services Ltd present their report on the general purpose interim financial report of the consolidated entity for the financial period ended 30 September 2019.

The financial report is for AusNet Services Ltd and its controlled entities (we, us, our, AusNet Services or the Group).

Our Board of Directors

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

Non-executive Directors

Peter **Mason** (Chairman)

Alan **Chan** Heng Loon

Ralph **Craven**

Sally **Farrier**

Li Lequan

Robert **Milliner**

Nora **Scheinkestel**

Tan Chee Meng

Executive Director

Nino **Ficca** – *Managing Director (retired 31 October 2019)*

Tony **Narvaez** – *Managing Director (appointed 1 November 2019)*

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

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

\$M	30 September 2019	30 September 2018	Movement	%
Revenue	1,020.7	995.8	24.9	2.5
Earnings before interest, tax, depreciation and amortisation (EBITDA)	625.8	631.6	(5.8)	(0.9)
Net profit after tax	171.8	181.5	(9.7)	(5.3)
Capital expenditure	458.0	462.4	(4.4)	(1.0)

Financial performance for the half year, while slightly down compared to the previous period, was consistent with expectations, noting that there are a number of one-off and pass-through items that have impacted the results. Revenues were in line with regulatory determinations and underlying operating expenditure growth was constrained as we continued to manage our cost base through the ongoing delivery of efficiency initiatives.

During the period, we executed a five-year contract with Downer EDI Limited (Downer), expanding its operational and maintenance services to cover the entire electricity distribution network. This resulted in the transfer of 240 employees to Downer in early September 2019. The one-off transition and mobilisation costs incurred to date have been largely offset within net profit by a defined benefit curtailment gain as a result of transferring employees prior to their retirement age. From an operating cash flow perspective, we have paid Downer \$20 million, primarily for the transferred employee entitlements. Some further transition costs will be incurred in the second half and we will also collect proceeds from inventory and motor vehicle transfers.

The \$24.9 million revenue increase reflects the net impact of the following:

- \$17.0 million increase in transmission easement tax revenue (collected on behalf of the Victorian State Revenue Office), which is a pass-through of higher expense;
- \$11.1 million revenue from sale of inventory to Downer as part of the transferring of our electricity distribution field workforce and scheduling function, which was sold at book value and resulted in an offsetting increase in operating costs;
- \$22.9 million increase in electricity distribution due to volume outperformance (\$4.1 million), higher incentive revenues (\$5.4 million) and regulated price increases; partly offset by
- \$17.3 million reduction in Mondo as a result of the scope change to a number of low margin field services contracts as well as the change in lease accounting standard which resulted in \$3.4 million of Mondo revenue becoming part of net finance charges; and
- \$9.5 million reduction in gas revenues as a result of prior year inclusion of Government grant income from Energy for the Regions program as well as a reduction due to phasing of gas tariffs in CY2019 out of the winter peak.

Operating expenses (excluding easement tax and the materials cost of the inventory sale described above) increased by \$2.6 million. The regulated business recorded a \$12.3 million increase due to higher vegetation management costs (\$7.0 million) associated with timing of cutting activities and higher Transmission Use of System (TUOS) costs (\$5.9 million) which will be recovered via future revenues. Partly offsetting the regulated cost increase is a \$9.7 million decrease in Mondo as a result of reduced costs following contract rationalisation.

In addition, depreciation increased \$6.4 million due to the new lease accounting standard as extra depreciation arose from right-of-use lessee assets, partly offset by a \$1.9 million depreciation reduction from the removal of lessor assets that were reclassified to other financial assets.

Capital expenditure is in line with the previous period, with no material change in capital expenditure levels in any of the four segments.

Directors' Report (continued)**Interim review of operations (continued)*****Electricity transmission business***

	30 September 2019	30 September 2018	Movement	%
Segment revenue (\$M)	322.8	311.9	10.9	3.5
Segment result - EBITDA (\$M)	193.7	201.5	(7.8)	(3.9)
Capital expenditure (\$M)	88.7	98.1	(9.4)	(9.6)

Transmission revenues increased as a result of the \$17.0 million increase in easement tax (pass-through revenue – no impact on EBITDA) offset by lower customer-initiated relocation revenues as the prior period included a significant relocation project. Easement tax reflects \$85.2 million or 66 per cent of total transmission operating expenses.

Capital expenditure decreased primarily as a result of the completion of major terminal station rebuilds in the prior year, partly offset by \$14.0 million of new spend on the North-West Communications Loop.

Electricity distribution business

	30 September 2019	30 September 2018	Movement	%
Segment revenue (\$M)	484.8	446.4	38.4	8.6
Segment result - EBITDA (\$M)	297.9	277.2	20.7	7.5
Volume (GWh)	3,950	3,937	13	0.3
Connections	747,740	732,523	15,217	2.1
Capital expenditure (\$M)	228.3	224.3	4.0	1.8

Regulated revenues increased by \$22.9 million primarily due to the combination of higher incentive revenues (\$5.4 million), volume outperformance (\$4.1 million) and regulated price increases. In addition, revenue increased \$11.1 million due to the sale of inventory to Downer, which was at nil margin. As discussed earlier, during the period the operational and maintenance services were transitioned to Downer, with 240 employees transferring. The transition has not had a material impact on the electricity distribution segment result.

Capital expenditure increased due to a \$13.0 million increase in rapid earth fault current limiter (REFCL) expenditure partly offset by lower replacement projects.

Future revenue impacts

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

- There is a difference between the regulated revenue recognised under our accounting policy, and the revenue cap under the Electricity Distribution Price Review (EDPR) determination. This difference is trued-up as an adjustment to tariffs in future periods. At 30 September 2019, we have a cumulative over-recovery of \$3.4 million which will reduce our revenue for the remainder of CY2019 and CY2020.
- The AER's decision on our 2016 Advanced Metering Infrastructure (AMI) Transition Charges Application will result in future revenue reduction of \$14.8 million, \$4.2 million in the remainder of CY2019 and \$10.6 million in CY2020.
- In CY2019, we re-commenced earning incentive revenues under the Service Target Performance Incentive Scheme (STPIS) and are entitled to \$12.1 million of future revenue as a result of our CY2017 network reliability performance of which we will receive approximately \$2.4 million in the remainder of CY2019 and \$9.7 million in CY2020. Our CY2020 tariffs are also expected to include a reduction of STPIS revenues of \$5.2 million as a result of our CY2018 network reliability performance (resulting in expected net STPIS revenues of \$4.5 million for CY2020).

Directors' Report (continued)**Interim review of operations (continued)****Gas distribution business**

	30 September 2019	30 September 2018	Movement	%
Segment revenue (\$M)	143.1	152.6	(9.5)	(6.2)
Segment result - EBITDA (\$M)	111.0	122.1	(11.1)	(9.1)
Volume (PJ)	43.6	42.8	0.8	1.9
Connections	722,458	701,682	20,776	3.0
Capital expenditure (\$M)	51.0	48.6	2.4	4.9

Regulated revenues decreased \$3.7 million due to changes in tariff profiling in CY2019, which saw higher fixed charges resulting in a smoothing of tariffs over the year reducing winter peak tariffs. In addition, customer contributions reduced by \$5.8 million due to the completion of the Energy for the Regions program in the prior period.

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

Mondo

	30 September 2019	30 September 2018	Movement	%
Segment revenue (\$M)	75.0	92.3	(17.3)	(18.7)
Segment result – EBITDA (\$M)	23.2	30.8	(7.6)	(24.7)
Lease interest income (\$M)	11.4	5.7	5.7	100.0
EBITDA after lease income (EBITDAaL) (\$M)	34.6	36.5	(1.9)	(5.2)
EBITDAaL Margin (%)	40.0	37.2	2.8	7.5
Capital expenditure (\$M)	90.0	91.4	(1.4)	(1.5)

During the period, the adoption of the new lease accounting standard resulted in a change in accounting treatment for a substantial number of Mondo's infrastructure assets. Dedicated customer connection assets are now accounted for as a finance lease, with revenue streams now split between interest income, principal repayment and operating revenue. Year on year revenues are not directly comparable since no restatement for assets now accounted for as finance income has been made in the prior period.

This change in accounting standard has resulted in a restatement of Mondo's key performance metrics to earnings before interest, depreciation and tax after lease interest income (EBITDAaL) and EBITDAaL margin (previously EBITDA and EBITDA margin) as these measurements are better reflections of business performance. The segment note continues to show the whole of business measure as EBITDA. Lease interest income in the prior year represents the income under the desalination plant connection agreement, which has historically been accounted for as a financial asset.

Revenues decreased \$17.3 million mainly due to the scope change of several high volume low margin field services contracts during the second half of FY2019 as well as non-recurring software development projects in the prior year. The change in accounting as described above has also resulted in a reduction in revenues of \$3.4 million, now recognised mainly as lease interest income. The additional increase in lease interest income reflects revenues arising from new windfarm connection projects completed since September 2018. EBITDAaL margins have increased as a result of the shift away from lower margin contract revenues to higher margin contracted infrastructure income.

Capital expenditure in the current period is consistent with the previous period and predominantly relates to Murra Warra, Stockyard Hill and Dundonnell wind farm transmission connections completed or currently under construction that are expected to conclude in the second half of FY2020. The prior period included capex in relation to four smaller wind farms, which were largely completed in the second half of FY2019.

Directors' Report (continued)

Financial position

Total equity of the Group was \$3,097.3 million as at 30 September 2019, a decrease of \$191.8 million compared to 31 March 2019, primarily attributed to the hedge reserve movement for the period due to lower interest rates and Australian dollar depreciation.

Our current liabilities exceed current assets by \$1,090.0 million at 30 September 2019. This includes \$1,360.8 million of current borrowings with upcoming debt maturities (at face value) of \$400.0 million of AUD notes in February and March 2020, \$100.0 million of Hong Kong bonds in March 2020, and \$709.7 million of Euro bonds in July 2020. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 30 September 2019 we have available a total of \$650 million of undrawn but committed non-current bank debt facilities, \$100 million of undrawn but committed current bank debt facilities and \$180.9 million of cash.

Capital management

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

Debt raising

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

In line with our Treasury Risk Policy, we maintain a diversified debt portfolio by maturity and source. AusNet Services has an A- credit rating from Standard and Poor's and A3 from Moody's Investor Services. This contributed to the successful completion of an A\$350 million 10-year bond issue in July 2019. This issuance satisfies our refinancing requirements for the remainder of FY2020, being the \$500 million of bonds maturing in February and March 2020 noted above.

Dividends

The final FY2019 dividend paid to shareholders on 27 June 2019 was as follows:

	Cents per share	Total dividend \$M
Unfranked dividend	2.67	97.5
Franked dividend	2.19	80.0
Total dividend	4.86	177.5

In relation to the final FY2019 dividend, \$65.0 million was utilised in the allotment of new shares issued under the Dividend Reinvestment Plan.

Environmental regulation and climate change

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

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007 (Cth)*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. We meet these thresholds and have lodged our current year's NGER reporting with the Clean Energy Regulator for the period from 1 July 2018 to 30 June 2019.

Directors' Report (continued)

Material risks and uncertainties

We are committed to understanding and effectively managing risk to enhance our ability to deliver on our strategic objectives and meet expectations of our shareholders, employees, customers, suppliers and the communities in which we operate. We maintain oversight of our material business risks (financial and non-financial) at an enterprise-wide level, with regular reporting to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. In our 31 March 2019 Financial Report, we detailed the following principal risks, which may materially impact the execution and achievement of our business strategy and financial prospects:

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

We provide the following update since the 31 March 2019 Financial Report:

Industry and regulatory risks update

Rapid Earth Fault Current Limiter (REFCL) update

On 3 October 2019, the AER made a final decision on AusNet Services' contingent project application for Tranche three of the REFCL installation program, approving total capital expenditure of \$94 million, which was \$12 million lower than our application as the AER did not accept our proposal to build a second zone substation at Kalkallo. This is the final contingent project application and provides funding certainty for the REFCL program. AusNet Services will make a further submission in relation to Kalkallo expenditure as part of the Electricity Distribution Price Review (EDPR) determination process.

Under the *Electricity Safety (Bushfire Mitigation) Regulations 2013*, AusNet Services was required to meet a defined quota of zone substations with compliant REFCLs by 1 May 2019 (tranche one), with additional targets by 1 May 2021 and 1 May 2023. In addition, the regulations also specify strict performance criteria that the REFCLs are required to operate under. As disclosed in the March 2019 Financial Report, there is the potential for substantial financial penalties to arise in the event of non-compliance.

The REFCL Tranche one compliance period is now in place and AusNet Services received conditional compliance on six of the eight zone substations and extensions of time on the remaining two until 1 November 2019. In early October 2019, AusNet Services applied for further time extensions on the remaining two zone substations until November 2020 and May 2021 to address the harmonics and damping issues currently prohibiting full compliance. AusNet Services previously contemplated pursuing technical exemptions in relation to these issues however, we now believe that we have workable solutions that will take additional time to implement. AusNet Services is awaiting an ESV decision on the further time extensions.

In addition, the conditions of conditional compliance are being actively addressed, with a submission to Energy Safe Victoria (ESV) made in October 2019 demonstrating the conditions have either been met or plans are in place to address the conditions by 31 December 2019. In November 2019, the ESV accepted this plan and granted an extension of the conditional compliance period to 31 December 2019.

AusNet Services is required to report monthly to ESV to demonstrate progress. In the event that ESV is not satisfied with our progress, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services. ESV has sole discretion over whether any extensions are granted, and for how long.

This summer is the first summer that REFCL devices will be in operation. We continue to monitor and manage the impact of these devices on our network and note that their effective operation may result in increased outages in our network, potentially affecting our customers and our future reliability incentives.

Tranche two is predominately in urban areas, with a number of high voltage customers connecting to these zone substations. While we continue to work with these customers, there is a risk of delay as a result of these customers requiring connection modifications. As a result, it is expected that a number of these zone substations will require extensions of time to meet the compliance period (1 May 2021).

As detailed in the March 2019 Financial Report, this program presents several other risks, which continue to be present and are being actively managed.

Directors' Report (continued)

Material risks and uncertainties (continued)

Bushfire Risks

Recent fire events, such as those in California, have resulted in substantial losses. These events are impacting the availability and pricing of bushfire liability insurance globally.

Risk management for these risks includes reviewing engineering standards and ratings for equipment, a significant annual investment in bushfire mitigation activities and the ongoing development and testing of emergency response plans. Investment is also being made in network resilience to strengthen critical parts of the electricity distribution network and enhance contingency planning. AusNet Services' safety record, network asset management and network maintenance programs are consistent with industry practice. We have achieved the targeted bushfire mitigation index of zero (a zero index means that no works are outstanding beyond their scheduled dates) by the bushfire season declaration and our vegetation management programs are prepared pursuant to the Electricity Safety (Bushfire Mitigation) Regulations. In addition, we continue to focus our customer engagement on community resilience, including pre-summer communications and media for customers to be bushfire ready.

AusNet Services has liability insurance which specifically provides cover for bushfire liability. AusNet Services reviews its insurance cover annually and seeks cover commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice. Recent events have seen some insurers withdraw from the market and premiums rise. This may continue to occur for future renewals. There are regulatory mechanisms in place under which, in certain circumstances, we may apply to the AER for a pass through of any reasonable and prudent residual costs that may ultimately be incurred in relation to bushfires above our liability insurance.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial period

Dividend

Since the end of the financial period, the Directors have approved an interim dividend for FY2020 of \$188.2 million (5.10 cents per share) 50 per cent franked to be paid on 19 December 2019. The AusNet Services Ltd Dividend Reinvestment Plan will be in operation for the FY2020 interim dividend, with shares allocated at a two percent discount to the volume weighted average price.

Rounding of amounts

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

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



Peter Mason
Chairman



Tony Narvaez
Managing Director

Melbourne
12 November 2019



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of AusNet Services Ltd

I declare that, to the best of my knowledge and belief, in relation to the review of AusNet Services Ltd for the half-year ended 30 September 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG
KPMG

BW Szentirmay

Partner

Melbourne

12 November 2019

Consolidated interim income statement

For the period ended 30 September 2019

		30 September	30 September
		2019	2018
	Notes	\$M	\$M
Revenue	B.2	1,020.7	995.8
Use of system and associated charges		(53.2)	(47.6)
Easement and land tax		(88.2)	(71.0)
Employee benefit expenses		(86.0)	(94.4)
External maintenance and contractors services		(66.9)	(59.2)
Materials		(24.1)	(14.4)
Information technology and communication costs		(22.8)	(24.7)
Operating lease rental expenses		(0.9)	(5.2)
Administrative expenses		(19.8)	(16.4)
Disposal of property plant and equipment		(11.4)	(11.5)
Other costs		(21.6)	(19.8)
Total expenses excluding depreciation, amortisation, interest and tax		(394.9)	(364.2)
Earnings before interest, tax, depreciation and amortisation		625.8	631.6
Depreciation and amortisation		(228.3)	(222.6)
Profit from operating activities		397.5	409.0
Finance income	D.2	12.5	11.2
Finance costs	D.2	(164.5)	(160.6)
Net finance costs		(152.0)	(149.4)
Profit before income tax		245.5	259.6
Income tax expense		(73.7)	(78.1)
Profit for the period		171.8	181.5
Basic and diluted earnings per share (cents per share)	B.4	4.69	5.03

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

Consolidated interim statement of comprehensive income

For the period ended 30 September 2019

	30 September 2019 \$M	30 September 2018 \$M
Profit for the period	171.8	181.5
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	(34.1)	5.5
Income tax on movement in defined benefit fund	10.2	(1.6)
	(23.9)	3.9
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	(321.2)	(3.8)
Income tax on movement in hedge reserve	96.4	2.4
	(224.8)	(1.4)
Other comprehensive income for the period, net of income tax	(248.7)	2.5
Total comprehensive income for the period	(76.9)	184.0

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

Consolidated interim statement of financial position

As at 30 September 2019

	Notes	30 September 2019 \$M	31 March 2019 \$M
ASSETS			
Current assets			
Cash and cash equivalents		180.9	339.4
Receivables		237.9	199.9
Other financial assets		13.2	12.1
Inventories		43.0	50.5
Derivative financial instruments		145.2	139.2
Other assets		47.9	24.3
Total current assets		668.1	765.4
Non-current assets			
Inventories		19.3	18.3
Property, plant and equipment	C.1	10,984.2	10,789.9
Intangible assets	C.2	544.3	542.3
Other financial assets		287.1	172.0
Derivative financial instruments		671.9	473.0
Other assets		18.8	54.9
Total non-current assets		12,525.6	12,050.4
Total assets		13,193.7	12,815.8
LIABILITIES			
Current liabilities			
Payables and other liabilities		286.8	292.1
Provisions		74.2	98.0
Borrowings	D.1	1,360.8	979.7
Derivative financial instruments		2.6	2.7
Current tax payable	B.5	33.7	31.9
Total current liabilities		1,758.1	1,404.4
Non-current liabilities			
Deferred revenue		206.6	199.3
Lease liabilities		89.6	-
Provisions		60.9	58.7
Borrowings	D.1	6,897.7	6,966.7
Derivative financial instruments		625.8	347.2
Deferred tax liabilities		457.7	550.4
Total non-current liabilities		8,338.3	8,122.3
Total liabilities		10,096.4	9,526.7
Net assets		3,097.3	3,289.1
EQUITY			
Contributed equity	D.3	5,290.6	5,222.9
Reserves		(1,987.3)	(1,761.6)
Retained profits		889.1	922.9
Other equity		(1,095.1)	(1,095.1)
Total equity		3,097.3	3,289.1

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

Consolidated interim statement of changes in equity

For the period ended 30 September 2019

	Notes	Share capital \$M	Restructure reserve (i) \$M	Hedge reserve (ii) \$M	Asset Revaluation Reserve (iii) \$M	Share based payment reserve (iv) \$M	Other equity (v) \$M	Retained profits \$M	Total equity \$M
30 September 2019									
Balance as at 1 April 2019		5,222.9	(1,501.9)	(315.2)	51.4	4.1	(1,095.1)	922.9	3,289.1
Impact of change in accounting policy		-	-	-	-	-	-	(4.2)	(4.2)
Adjusted balance as at 1 April 2019		5,222.9	(1,501.9)	(315.2)	51.4	4.1	(1,095.1)	918.7	3,284.9
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	171.8	171.8
Other comprehensive income		-	-	(224.8)	-	-	-	(23.9)	(248.7)
Total comprehensive income for the period		-	-	(224.8)	-	-	-	147.9	(76.9)
Transactions with owners, recorded directly in equity									
Dividends paid	D.4	-	-	-	-	-	-	(177.5)	(177.5)
Dividend Reinvestment Plan (net of transaction costs)	D.3	65.0	-	-	-	-	-	-	65.0
Share based payment reserve	D.3	2.7	-	-	-	(0.9)	-	-	1.8
Total transactions with owners		67.7	-	-	-	(0.9)	-	(177.5)	(110.7)
Balance as at 30 September 2019		5,290.6	(1,501.9)	(540.0)	51.4	3.2	(1,095.1)	889.1	3,097.3
30 September 2018									
Balance as at 1 April 2018		5,162.5	(1,501.9)	(117.1)	51.4	7.3	(1,095.1)	1,048.9	3,556.0
Impact of change in accounting policy		-	-	-	-	-	-	(33.9)	(33.9)
Adjusted balance as at 1 April 2018		5,162.5	(1,501.9)	(117.1)	51.4	7.3	(1,095.1)	1,015.0	3,522.1
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	181.5	181.5
Other comprehensive income		-	-	(1.4)	-	-	-	3.9	2.5
Total comprehensive income for the period		-	-	(1.4)	-	-	-	185.4	184.0
Transactions with owners, recorded directly in equity									
Dividends paid	D.4	-	-	-	-	-	-	(166.8)	(166.8)
Share based payment reserve	D.3	4.2	-	-	-	(2.9)	-	-	1.3
Shares purchased as part of employee share plans	D.3	(3.1)	-	-	-	-	-	-	(3.1)
Total transactions with owners		1.1	-	-	-	(2.9)	-	(166.8)	(168.6)
Balance as at 30 September 2018		5,163.6	(1,501.9)	(118.5)	51.4	4.4	(1,095.1)	1,033.6	3,537.5

Consolidated interim statement of changes in equity

For the period ended 30 September 2019

- (i) Under the corporate restructure, AusNet Services Ltd shares were issued to shareholders in return for their stapled securities. AusNet Services Ltd share capital was measured at fair value on the date of the transaction, being the market capitalisation of the AusNet Services Stapled Group on the date of implementation of 18 June 2015 (\$4,957.7 million). The difference between the contributed equity of AusNet Services Ltd and the pre-restructure contributed equity of the Stapled Group at the date of the transaction was recognised as a restructure reserve.
- (ii) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset.
- (iii) This amount represents the fair value uplift to the assets of the AusNet Services Transmission Group on the date that the previous Stapled Group was formed. The fair value uplift was applied to easements which are considered to have an indefinite useful life. The amount was carried into the asset revaluation reserve of the Group following the corporate restructure on 18 June 2015.
- (iv) The share based payment reserve represents the tax-effected fair value of the performance rights granted under the 2017-2019 tranches of the long-term incentive plan. This takes into account estimated vesting and service conditions as at 30 September 2019.
- (v) The other equity component results from the application of reverse acquisition accounting and represents the difference between the net assets of AusNet Services (Transmission) Ltd and AusNet Finance Pty Ltd and the purchase price paid by the legal acquirer, AusNet Services (Transmission) Ltd on 20 October 2005.

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

Consolidated interim statement of cash flows

For the period ended 30 September 2019

	30 September 2019 \$M	30 September 2018 \$M
Cash flows from operating activities		
Profit for the period	171.8	181.5
Add back interest, tax, depreciation	454.0	450.1
Non-cash gifted assets revenue	(23.8)	(19.9)
Other non-cash items	(2.2)	10.8
Working capital movement	(33.2)	(61.3)
Income tax paid	(57.2)	(10.7)
Net interest paid	(153.2)	(141.4)
Net cash inflow from operating activities	356.2	409.1
Cash flows from investing activities		
Payments for property, plant and equipment (i)	(466.0)	(427.4)
Proceeds from sale of property, plant and equipment	2.9	0.6
Receipts from financial assets	4.3	4.4
Net cash outflow from investing activities	(458.8)	(422.4)
Cash flows from financing activities		
Payments for employee share plans	-	(3.1)
Payments for lease liabilities	(3.2)	-
Dividends paid (ii)	(112.5)	(166.8)
Proceeds from borrowings	378.0	225.4
Repayments of borrowings	(318.2)	(537.5)
Net cash inflow/(outflow) from financing activities	(55.9)	(482.0)
Net increase/(decrease) in cash held	(158.5)	(495.3)
Cash and cash equivalents at beginning of the period	339.4	658.2
Cash and cash equivalents at the end of the period	180.9	162.9

- (i) Net finance costs include a credit of \$13.8 million (2018: \$11.9 million) for capitalised finance charges which is included in payments for property, plant and equipment.
- (ii) Amounts shown represent dividends paid of \$177.5 million (2018: \$166.8 million) offset by proceeds from the Dividend Reinvestment Plan net of transaction costs of \$65.0 million (2018: nil).

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

Condensed notes to the consolidated interim financial statements

30 September 2019

Contents

Section A	Overview	18
Section B	Operating our business	22
Note B.1	Segment information	22
Note B.2	Revenue	25
Note B.3	Seasonality of operations	26
Note B.4	Earnings per share	26
Note B.5	Current tax payable	27
Section C	Investing in our business	28
Note C.1	Property, plant and equipment	28
Note C.2	Intangible assets	29
Note C.3	Capital expenditure	29
Section D	Financing our business	30
Note D.1	Borrowings	30
Note D.2	Net finance costs	31
Note D.3	Equity	31
Note D.4	Dividends	32
Section E	Other disclosures	33
Note E.1	Contingent liabilities and contingent assets	33
Note E.2	Events occurring after the balance sheet date	34

Condensed notes to the consolidated interim financial statements

30 September 2019

Section A Overview

(a) Basis of preparation

The consolidated general purpose interim financial report, prepared by a for-profit entity for the period ended 30 September 2019, represents the consolidated financial statements of the Group, which comprises AusNet Services Ltd and its subsidiaries. The Group is also referred to as we, us, our or AusNet Services.

The financial report has been prepared:

- in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth);
- on a going concern basis, which contemplates the continuity of normal trading operations. The Group's current liabilities exceed current assets by \$1,090.0 million at 30 September 2019 primarily due to \$1,360.8 million of current borrowings. The Group is, and is expected to continue trading profitably, generating positive operating cash flows, and successfully refinancing maturing debt. In addition, at 30 September 2019 we have available a total of \$650 million of undrawn but committed non-current bank debt facilities, \$100 million of undrawn but committed current bank debt facilities and \$180.9 million of cash. Upcoming debt maturities include (at face value), \$400.0 million of AUD notes in February and March 2020, \$100.0 million of Hong Kong bonds in March 2020, and \$709.7 million of Euro bonds in July 2020;
- under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value; and
- with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Instrument 2016/191 issued by the Australian Securities and Investments Commission.

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of the Group for the year ended 31 March 2019 and any public announcements made by AusNet Services Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act*.

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

The interim financial statements were approved by the Board of Directors on 12 November 2019.

Except for the adoption of AASB 16 *Leases*, the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2019.

(b) Critical accounting estimates and judgements

The preparation of the financial report requires management to make estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

In preparing this consolidated interim financial report, other than the adoption of AASB 16 and the areas of judgement outlined in note A(c), the key sources of estimation uncertainty were the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2019. Some of the critical judgements and estimates used by management in applying the Group's accounting policies for the period ended 30 September 2019 have been updated to reflect the latest available information. These updates have not had a significant impact on the financial performance or financial position of the Group as at and for the period ended 30 September 2019.

Condensed notes to the consolidated interim financial statements

30 September 2019

Section A Overview (continued)**(c) Change in accounting policies – AASB 16 Leases****i. As a lessee**

On adoption of AASB 16, the Group recognised lease liabilities and right-of-use assets in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. AASB 16 was adopted from 1 April 2019, using the modified retrospective transition method.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate (including reassessment of extension options), or a change in the discount rate.

At transition, the right-of-use asset is measured at the same value as the lease liability and is subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. Further judgement is used to determine the discount rate, which is the Group's incremental borrowing rate reflective of terms and conditions of the lease.

The Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value and/or that expire within 12 months of lease term. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. As a lessor

Under AASB 16, the Group has determined that its dedicated unregulated customer connection assets now meet the new definition of a finance lease, resulting in de-recognition of property, plant and equipment and the recognition of a financial asset. The financial asset is initially measured at the present value of remaining revenue receipts, discounted at the interest rate implicit in the lease. In order to calculate the interest rate implicit in the lease, the Group has determined that the construction costs of the asset is equivalent to its fair value.

At transition, certain contract assets and contract liabilities recognised under AASB 15 *Revenue from Contracts with Customers* for dedicated unregulated customer connections were de-recognised and adjusted to retained profits.

The Group continues to act as lessor in certain operating lease arrangements and the accounting treatment of these is unchanged by AASB 16.

iii. Reconciliation of FY2019 operating lease commitments to AASB 16 lease liability:

	1 April 2019 \$M
Operating lease commitments at 31 March 2019	155.0
Discounted using the incremental borrowing rate at 1 April 2019 (i)	99.8
- Extension options reasonably certain to be exercised (ii)	4.0
Lease liabilities recognised at 1 April 2019	103.8

- (i) When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted-average rate applied was 5.64%.
- (ii) Relates to a 20 year extension option beginning in 2048 for land at one of the Group's terminal stations.

Condensed notes to the consolidated interim financial statements

30 September 2019

Section A Overview (continued)**(c) Change in accounting policies – AASB 16 Leases (continued)****Impacts on financial statements:**

The following tables summarise the impact of adopting AASB 16 on the Group's consolidated interim statement of financial position as at 30 September 2019, the Group's consolidated interim income statement and consolidated interim statement of cash flows for the half year then ended.

Consolidated interim statement of financial position as at 30 September 2019

	Before adoption of AASB 16 \$M	Impact of AASB 16 (lessor) \$M	Impact of AASB 16 (lessee) \$M	Reported \$M
ASSETS				
Current assets				
Desalination licence receivable	12.1	(12.1)	-	-
Other financial assets	-	13.2	-	13.2
Total current assets	667.0	1.1	-	668.1
Non-current assets				
Property, plant and equipment	11,009.1	(118.7) ⁱ	93.8 ⁱⁱⁱ	10,984.2
Desalination licence receivable	167.6	(167.6)	-	-
Other financial assets	-	287.1	-	287.1
Other assets	26.8	(8.0) ⁱⁱ	-	18.8
Total non-current assets	12,439.0	(7.2)	93.8	12,525.6
Total assets	13,106.0	(6.1)	93.8	13,193.7
LIABILITIES				
Current liabilities				
Payables and other liabilities	279.4	-	7.4 ^{iv}	286.8
Total current liabilities	1,750.7	-	7.4	1,758.1
Non-current liabilities				
Deferred revenue	210.4	(3.8) ⁱⁱ	-	206.6
Lease liabilities	-	-	89.6 ^{iv}	89.6
Deferred tax liabilities	458.2	0.5	(1.0)	457.7
Total non-current liabilities	8,253.0	(3.3)	88.6	8,338.3
Total liabilities	10,003.7	(3.3)	96.0	10,096.4
Net assets	3,102.3	(2.8)	(2.2)	3,097.3
Equity				
Retained profits	894.1	(2.8)	(2.2)	889.1
Total equity	3,102.3	(2.8)	(2.2)	3,097.3

(i) Includes \$120.6 million transition adjustment less \$1.9 million of depreciation.

(ii) On transition, \$4.2 million was adjusted to retained earnings for de-recognition of \$8.0 million of contract assets and \$3.8 million of contract liabilities recognised under AASB 15.

(iii) Includes transition adjustment of \$103.8 million less \$6.4 million of depreciation, \$2.4 million of adjusted lease end dates and \$1.2 million of leases novated as part of the outsourcing initiative during the period.

(iv) Includes transition adjustment of \$103.8 million (\$7.4 million current and \$96.4 million non-current), less \$3.2 million of repayments, \$2.4 million of adjusted lease end dates and \$1.2 million of leases novated as part of the outsourcing initiative.

Condensed notes to the consolidated interim financial statements

30 September 2019

Section A Overview (continued)**(c) Change in accounting policies – AASB 16 Leases (continued)****Consolidated income statement for the period ended 30 September 2019**

	Before adoption of AASB 16 \$M	Impact of AASB 16 (lessor) \$M	Impact of AASB 16 (lessee) \$M	Reported \$M
Revenue	1,026.3	(5.6)	-	1,020.7
Operating lease rental expense	(7.5)	-	6.6	(0.9)
Earnings before interest, tax, depreciation and amortisation	624.8	(5.6)	6.6	625.8
Depreciation and amortisation	(223.8)	1.9	(6.4)	(228.3)
Net finance costs	(154.3)	5.7	(3.4)	(152.0)
Profit before income tax	246.7	2.0	(3.2)	245.5
Income tax expense	(74.1)	(0.6)	1.0	(73.7)
Profit for the period	172.6	1.4	(2.2)	171.8

Consolidated statement of cash flows for the period ended 30 September 2019

	Before adoption of AASB 16 \$M	Impact of AASB 16 (lessor) \$M	Impact of AASB 16 (lessee) \$M	Reported \$M
Cash flows from operating activities				
Profit for the period	172.6	1.4	(2.2)	171.8
Add back interest, tax, depreciation	452.2	(7.0)	8.8	454.0
Net interest received/(paid)	(155.5)	5.7	(3.4)	(153.2)
Net cash inflow from operating activities	352.9	0.1	3.2	356.2
Cash flows from investing activities				
Receipts from desalination licence receivable	4.4	(4.4)	-	-
Receipts from financial assets	-	4.3	-	4.3
Net cash (outflow) from investing activities	(458.7)	(0.1)	-	(458.8)
Cash flows from financing activities				
Payments for lease liabilities	-	-	(3.2)	(3.2)
Net cash (outflow) from financing activities	(52.7)	-	(3.2)	(55.9)

Condensed notes to the consolidated interim financial statements

30 September 2019

Section B Operating our business

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

Note B.1 Segment information

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

(a) Description of reportable segments

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

(i) Electricity distribution

The electricity distribution network carries electricity from the high voltage transmission network to end users, including metering. We charge retailers and some large customers regulated rates for the use of the electricity distribution network. The performance obligation is the provision of the access to the network and as such use of system revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period. Variable consideration relating to volumes is constrained to the period in which it occurs, and volume over or under recoveries under the revenue cap are not considered to comprise variable consideration in accordance with AASB 138 *Intangible Assets*.

Excluded ancillary and alternative control services including public lighting, cross boundary charges and new connection charges are rendered to customers for a fixed rate with revenue recognised at a point in time when the services are rendered. The electricity distribution segment does not purchase or sell electricity. Our electricity distribution network covers eastern Victoria including the eastern metropolitan region of Melbourne.

Customer Contributions

Customer contributions include the receipt of cash from a customer for the construction of assets, or the contribution of completed assets to us.

Non-refundable contributions received from customers towards the cost of extending or modifying our networks are generally recognised as revenue and an asset respectively once control is gained of the contribution or asset and it is operating as intended. The performance obligation is at a point in time being the time at which the customer is connected to the network.

For some customer projects, the performance obligation will be linked to an ongoing service contract, and hence the performance obligation will be satisfied over time, being the contract term.

Customer contributions of cash are measured with reference to the cash contribution received and customer contributions of assets are measured at the fair value of the assets contributed at the date we gain control of the asset. Fair value is determined with reference to the depreciated replacement cost of the asset, unless another measure of fair value is considered more appropriate.

(ii) Gas distribution

The gas distribution network carries natural gas to commercial and residential end users, including metering. We charge retailers and some large customers regulated rates for the use of the gas distribution network. The performance obligation is the provision of the access to the network and as such use of system revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period. Variable consideration, being the volume fluctuations or true ups for unaccounted for gas are constrained to the period to which they apply. The gas distribution segment does not purchase or sell gas. Our gas distribution network covers central and western Victoria.

Customer contributions in the gas distribution segment are accounted for in the same way as the electricity distribution segment.

Condensed notes to the consolidated interim financial statements

30 September 2019

Note B.1 Segment information (continued)

(a) Description of reportable segments (continued)

(iii) Electricity transmission

We own and manage the vast majority of the electricity transmission network in Victoria. Our electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power generators to electricity distributors around Victoria forming the backbone of the Victorian electricity network. We charge the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network. Prescribed excluded services revenue is generated from assets that will be rolled into the regulated asset base (RAB) in the next regulatory reset period and included in regulated transmission revenue from that date. Negotiated excluded services revenue is generated from assets that are excluded from the RAB but for which revenue is controlled under a regulated negotiating framework. In each case, contracts are based on fixed fees over the life of the asset and performance obligations are satisfied over time. The electricity transmission segment does not purchase or sell electricity.

(iv) Mondo

The Mondo business provides contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. The contracted infrastructure asset services business unit owns and operates a portfolio of assets that fall outside the regulated asset base. The investments are made through directly negotiated agreements, pursuant to which Mondo typically receives fixed fee revenue over the contract period in exchange for the infrastructure and operational services provided. Variable consideration includes penalty regimes for unplanned outages, early completion bonuses and other incentives/penalties which vary between contracts and is constrained to the period in which it arises.

Specialised technology solutions relate to the development and maintenance of asset management software solutions for utility and rail customers. Performance obligations are typically split between the development and the maintenance of the software. Performance obligations for development revenue are based on milestones, and are recognised at a point in time. Performance obligations for software maintenance are satisfied over the life of the contract. There is no variable consideration in these contracts.

For customer contributions in the Mondo business, the performance obligation will be linked to an ongoing service contract, and hence the performance obligation will be satisfied over time, being the contract term.

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

Condensed notes to the consolidated interim financial statements

30 September 2019

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

	Electricity distribution	Gas distribution	Electricity transmission	Mondo	Inter-segment eliminations	Consolidated
	\$M	\$M	\$M	\$M	\$M	\$M
30 September 2019						
Regulated revenue	431.9	139.0	290.6	-	(4.8)	856.7
Excluded transmission revenue	-	-	30.8	-	(0.2)	30.6
Unregulated infrastructure revenue	-	-	-	25.5	-	25.5
Customer contributions	37.1	3.4	-	0.7	-	41.2
Service revenue	-	-	-	39.9	-	39.9
Other revenue	15.8	0.7	1.4	8.9	-	26.8
Total segment revenue	484.8	143.1	322.8	75.0	(5.0)	1,020.7
Segment operating expense	(186.9)	(32.1)	(129.1)	(51.8)	5.0	(394.9)
Segment result - EBITDA (i)	297.9	111.0	193.7	23.2	-	625.8
Lease interest income	-	-	-	11.4	-	11.4
EBITDAaL (ii)	297.9	111.0	193.7	34.6	-	637.2
Depreciation and amortisation	(128.5)	(32.9)	(53.4)	(13.5)	-	(228.3)
Net finance costs (excluding lease interest income)	-	-	-	-	-	(163.4)
Income tax expense	-	-	-	-	-	(73.7)
Profit for the period						171.8
30 September 2018						
Regulated revenue	408.9	143.0	270.1	-	(5.0)	817.0
Excluded transmission revenue	-	-	39.1	-	-	39.1
Unregulated infrastructure revenue	-	-	-	26.1	-	26.1
Customer contributions	32.5	4.8	-	-	-	37.3
Service revenue	-	-	-	58.3	(2.4)	55.9
Other revenue	5.0	4.8	2.7	7.9	-	20.4
Total segment revenue	446.4	152.6	311.9	92.3	(7.4)	995.8
Segment operating expense	(169.2)	(30.5)	(110.4)	(61.5)	7.4	(364.2)
Segment result - EBITDA (i)	277.2	122.1	201.5	30.8	-	631.6
Lease interest income (iii)	-	-	-	5.7	-	5.7
EBITDAaL (ii)	277.2	122.1	201.5	36.5	-	637.3
Depreciation and amortisation	(140.5)	(24.8)	(46.8)	(10.5)	-	(222.6)
Net finance costs (excluding lease interest income) (iii)	-	-	-	-	-	(155.1)
Income tax expense	-	-	-	-	-	(78.1)
Profit for the period						181.5

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

(ii) EBITDA after lease income

(iii) For FY2019, \$5.7 million of finance income has been re-allocated from the \$149.4 million of net finance costs presented in the consolidated interim income statement representing desalination interest income now presented within EBITDAaL.

Condensed notes to the consolidated interim financial statements

30 September 2019

Note B.1 Segment information (continued)**(c) Notes to and forming part of the segment information***(i) Accounting policies*

Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. The Cost Allocation Methodology as approved by the Australian Energy Regulator (AER) is used as the basis for allocating expenses to the relevant segment.

(ii) Inter-segment eliminations

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

Note B.2 Revenue**Disaggregated revenue**

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

30 September 2019	Electricity distribution \$M	Gas distribution \$M	Electricity transmission \$M	Mondo \$M	Inter-segment eliminations \$M	Total \$M
Timing of recognition						
At a point in time	61.3	6.1	1.1	31.7	-	100.2
Over time	422.7	137.0	321.6	42.6	(5.0)	918.9
Revenue from contracts with customers	484.0	143.1	322.7	74.3	(5.0)	1,019.1

**Other income not in scope of
AASB 15**

Operating lease income	0.1	-	0.1	-	-	0.2
Income from government grants	0.7	-	-	0.7	-	1.4

Total segment revenue	484.8	143.1	322.8	75.0	(5.0)	1,020.7
------------------------------	--------------	--------------	--------------	-------------	--------------	----------------

30 September 2018**Timing of recognition**

At a point in time	46.2	13.5	2.5	47.0	-	109.2
Over time	399.7	139.1	309.2	45.3	(7.4)	885.9

Revenue from contracts with customers	445.9	152.6	311.7	92.3	(7.4)	995.1
--	--------------	--------------	--------------	-------------	--------------	--------------

**Other income not in scope of
AASB 15**

Operating lease income	0.1	-	0.2	-	-	0.3
Income from government grants	0.4	-	-	-	-	0.4

Total segment revenue	446.4	152.6	311.9	92.3	(7.4)	995.8
------------------------------	--------------	--------------	--------------	-------------	--------------	--------------

Condensed notes to the consolidated interim financial statements30 September 2019

Note B.3 Seasonality of operations**(a) Electricity distribution**

Electricity distribution volumes display some seasonal variation with increased volumes in winter due to higher demand for heating and increased volumes in summer as a result of higher demand for air conditioning. However, the impact of seasonal volume variation on electricity distribution revenue is limited due to the tariff structure, which includes a fixed component and a contract demand capacity component. The high proportion of process related consumption of commercial and industrial customers also limits seasonal variation. Electricity distribution revenue operates under a revenue cap, with the amount of total revenue fixed over the regulatory reset period. Any under/over recovery in a particular calendar year will be built into subsequent years' tariffs.

(b) Gas distribution

Gas distribution volume is seasonal with a distinct winter peak due to gas demand for heating. A component of the seasonal revenue variation is mitigated due to the tariff structure, which includes a fixed component and a demand capacity-based component.

(c) Electricity transmission

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

(d) Mondo

Mondo revenue is not seasonal and is earned as the services are rendered.

Note B.4 Earnings per share**(a) Basic earnings per share**

		30 September	30 September
		2019	2018
	Profit attributable to the ordinary shareholders of AusNet Services (\$M)	171.8	181.5
divided by	Weighted average number of shares (million)	3,667	3,609
equals	Basic earnings per share (cents)	4.69	5.03

(b) Diluted earnings per share

There were no factors causing a dilution of either the profit or loss attributable to ordinary shareholders or the weighted average number of ordinary shares outstanding. We have the option to issue equity to meet vested share rights to employees, however we are currently purchasing these on market. Accordingly, basic and diluted earnings per share are the same.

Condensed notes to the consolidated interim financial statements

30 September 2019

Note B.5 Current tax payable

Reconciliation of tax payable

	30 September 2019	30 September 2018
	\$M	\$M
Current tax payable		
Opening balance	31.9	3.6
Finalisation of prior year tax return	(28.3)	-
Tax instalments paid	(28.9)	(10.7)
Current period tax expense	59.0	55.5
Closing balance	33.7	48.4

Condensed notes to the consolidated interim financial statements

30 September 2019

Section C Investing in our business

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

Note C.1 Property, plant and equipment

	Freehold land \$M	Buildings \$M	Easements \$M	Transmission network \$M	Electricity distribution network \$M	Gas distribution network \$M	Other plant and equipment \$M	Lessee right- of-use asset \$M	Capital work in progress \$M	Total \$M
30 September 2019										
Cost	252.6	540.9	1,226.9	3,147.7	5,977.1	2,145.1	694.1	100.2	631.8	14,716.4
Accumulated depreciation	-	(107.2)	(0.2)	(903.0)	(1,658.9)	(515.1)	(541.4)	(6.4)	-	(3,732.2)
Carrying amount as at 30 September 2019	252.6	433.7	1,226.7	2,244.7	4,318.2	1,630.0	152.7	93.8	631.8	10,984.2
31 March 2019										
Cost	253.5	528.6	1,227.5	3,119.8	5,780.3	2,104.9	686.1	-	652.3	14,353.0
Accumulated depreciation	-	(102.8)	(0.1)	(874.2)	(1,573.2)	(489.6)	(523.2)	-	-	(3,563.1)
Carrying amount as at 31 March 2019	253.5	425.8	1,227.4	2,245.6	4,207.1	1,615.3	162.9	-	652.3	10,789.9

Condensed notes to the consolidated interim financial statements

30 September 2019

Note C.2 Intangible assets

	Distribution licences	Goodwill	Software	Other intangible assets	Total
	\$M	\$M	\$M	\$M	\$M
30 September 2019					
Cost	354.5	35.8	612.0	5.5	1,007.8
Accumulated amortisation	-	-	(458.0)	(5.5)	(463.5)
Carrying amount as at 30 September 2019	354.5	35.8	154.0	-	544.3
31 March 2019					
Cost	354.5	35.8	587.6	5.5	983.4
Accumulated amortisation	-	-	(435.7)	(5.4)	(441.1)
Carrying amount as at 31 March 2019	354.5	35.8	151.9	0.1	542.3

Note C.3 Capital expenditure

	30 September 2019	30 September 2018
	\$M	\$M
Electricity distribution	228.3	224.3
Gas distribution	51.0	48.6
Electricity transmission	88.7	98.1
Mondo	90.0	91.4
Total capital expenditure	458.0	462.4

Condensed notes to the consolidated interim financial statements

30 September 2019

Section D Financing our business

This section provides information relating to our capital structure and our exposure to financial risks, how they affect the Group's financial position and performance, and how those risks are managed. The Group's financial risk management objectives and policies are consistent with those disclosed in the Group's consolidated financial report as at and for the year ended 31 March 2019.

Note D.1 Borrowings

		30 September 2019	31 March 2019
	Maturity date	\$M	\$M
Current borrowings			
Swiss franc (CHF) senior notes (i)		-	389.5
Bank debt facilities		-	22.0
Domestic medium-term notes	Feb 2020	303.5	341.1
Hong Kong dollar (HKD) senior notes (i)	Mar 2020	132.8	127.1
Floating rate note	Mar 2020	100.0	100.0
Euro (EUR) senior notes (i)	Jul 2020	824.5	-
Total current borrowings		1,360.8	979.7
Non-current borrowings			
Hong Kong dollar (HKD) senior notes (i)	2021-2034	971.6	876.5
Domestic medium-term notes	2021-2043	2,336.0	1,949.5
Bank debt facilities	2023	47.8	-
Euro (EUR) senior notes (i)	2024-2030	1,940.7	2,637.1
Japanese Yen (JPY) senior notes (i)	2024	71.6	66.3
US dollar (USD) senior notes (i)	2026	130.5	118.7
Norwegian Kroner (NOK) senior notes (i)	2027-2029	632.4	596.4
US dollar (USD) hybrid (i), (ii)	2076	551.0	513.7
Singapore dollar (SGD) hybrid (i), (ii)	2076	216.1	208.5
Total non-current borrowings		6,897.7	6,966.7
Total borrowings		8,258.5	7,946.4

(i) The carrying value of foreign currency borrowings are translated at spot rate as at balance date. The foreign currency risk associated with these borrowings is hedged through the use of cross-currency swaps.

(ii) The first call date for hybrid securities in September 2021.

AusNet Services had \$650 million of undrawn but committed non-current bank debt facilities, \$100 million of undrawn but committed current bank debt facilities and \$180.9 million cash on deposit as at 30 September 2019. AusNet Services has an A- credit rating from Standard and Poor's and an A3 credit rating from Moody's Investor Services.

(a) Fair value measurement

Derivative financial instruments are recognised at fair value and are measured in accordance with generally accepted pricing models based on discounted cash flow analysis. Appropriate transaction costs are included in the determination of net fair value. These pricing models use significant market observable data as well as market corroboration based on active quotes. As such, fair value measurements are deemed level two within the fair value hierarchy as per AASB 13 *Fair Value Measurement*. The Group does not have any financial instruments which would be categorised as either level one or three of the fair value hierarchy.

The Group also has a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings, the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 30 September 2019.

Condensed notes to the consolidated interim financial statements

30 September 2019

Note D.1 Borrowings (continued)**(a) Fair value measurement (continued)**

The fair value of total borrowings as at 30 September 2019 is \$8,924.6 million (31 March 2019: \$8,562.0 million). This fair value measurement uses significant market observable data, and therefore is a level two measurement within the fair value hierarchy as per AASB 13. The valuation techniques applied are consistent with those applied in the consolidated financial report as at and for the year ended 31 March 2019.

Note D.2 Net finance costs

	30 September 2019 \$M	30 September 2018 \$M
Finance income		
Interest income	1.1	5.5
Return on financial assets	11.4	5.7
Total finance income	12.5	11.2
Finance costs		
Interest expense	162.5	163.2
Other finance charges - cash	1.7	1.6
Other finance charges - non-cash	2.5	2.7
Loss/(gain) on accounting for hedge relationships	6.5	3.5
Unwind of discount on provisions	2.3	2.3
Unwind of discount on lease liabilities	3.4	-
Defined benefit net interest income	(0.6)	(0.8)
Capitalised finance charges	(13.8)	(11.9)
Total finance costs	164.5	160.6
Net finance costs	152.0	149.4

Note D.3 Equity

	30 September 2019 \$M	31 March 2019 \$M
Contributed equity		
Ordinary share capital (a)	5,297.1	5,232.1
Shares held by employee share plans trust (b)	(6.5)	(9.2)
Total contributed equity	5,290.6	5,222.9

(a) Movements in ordinary share capital

Date	Details	Issue price	Number of shares	\$M
1 April 2019	Opening balance		3,652,664,376	5,232.1
27 June 2019	Dividend Reinvestment Plan (i)	\$1.75	37,146,857	65.0
30 September 2019	Closing balance		3,689,811,233	5,297.1
1 April 2018	Opening balance		3,614,346,765	5,172.8
30 September 2018	Closing balance		3,614,346,765	5,172.8

- (i) On 27 June 2019, 37.1 million new shares were issued under the DRP. The new shares were issued at a price of \$1.75 providing approximately \$65.0 million.

Condensed notes to the consolidated interim financial statements

30 September 2019

Note D.3 Equity (continued)**(b) Shares held by employee share plans trust**

The Group uses an employee share trust as a delivery mechanism to satisfy future vesting entitlements for the Short Term Incentive Plan deferred equity rights for the Managing Director and the Long Term Incentive Plan (LTIP) performance rights. During the financial period, no shares were acquired on market and 1,622,106 shares vested at an average price of \$1.69 per share.

During the previous financial period, 1,901,462 shares were acquired on market at an average price of \$1.60 per share and 2,411,082 shares vested at an average price of \$1.73 per share.

The share trust is held by Computershare Pty Ltd and for accounting purposes the trust is deemed to be controlled by AusNet Services. Accordingly, the shares held by the trust are consolidated into the Group's financial statements. The shares have been excluded for the earnings per share calculation in note B.4.

Note D.4 Dividends

The following dividends were approved and paid by AusNet Services to shareholders during the current and previous interim financial periods:

	Date paid	Cents per share	Total dividend \$M
Current period			
Ordinary dividend - franked	27 June 2019	2.19	80.0
Ordinary dividend - unfranked	27 June 2019	2.67	97.5
Total dividends		4.86	177.5
Previous period			
Ordinary dividend - unfranked	28 June 2018	4.62	166.8
Total dividends		4.62	166.8

In relation to the dividend paid of \$177.5 million, \$65.0 million less transaction costs was utilised in the allotment of new shares issued under the DRP. There was no DRP in the previous financial period.

Condensed notes to the consolidated interim financial statements

30 September 2019

Section E Other disclosures

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

Note E.1 Contingent liabilities and contingent assets

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

AusNet Services has eight zone substations commissioned with REFCL technology. However, some technical issues have been identified during the testing of installed REFCLs. This means that the achievement of the “required capacity” under the regulations is challenging due to the new use of this technology and its interaction with the existing network at some sites. While we continue to actively work on resolving these issues, delays to achieving full compliance with the legislative requirements detailed below have been experienced.

The amended Electricity Safety Act 1998 (Vic) (ESA) enables Energy Safe Victoria (ESV) or the Minister to apply to the Supreme Court of Victoria, seeking the imposition of significant financial penalties if AusNet Services fails to achieve the number of points prescribed by the Regulations throughout the applicable compliance period. The legislation provides that the Court can impose a maximum penalty of \$2 million per point for each station where AusNet Services has not achieved compliance. Accordingly, penalties of up to \$10 million per zone substation can apply if AusNet Services fails to achieve the required capacity during the relevant compliance period. Additionally, the Court can impose a maximum daily penalty of \$5,500 for each day AusNet Services remains non-compliant.

In April 2019, ESV confirmed that six of these zone substations totalling 23 points have achieved conditional compliance. In addition, the conditions of conditional compliance on the other six zone substations are being actively addressed, with a submission to Energy Safe Victoria (ESV) made in October 2019 demonstrating the conditions have either been met or plans are in place to address the conditions by 31 December 2019. In November 2019, the ESV accepted this plan and granted an extension of the conditional compliance period to 31 December 2019. Conditional compliance means that ESV has accepted that AusNet Services has successfully commissioned the REFCL devices and they are functioning at a level acceptable to ESV, however there are further steps required to meet full compliance.

Two of the zone substations have not achieved conditional compliance, and ESV granted time-extensions to postpone the commencement of the Tranche 1 Compliance Period until 1 November 2019. In early October 2019, AusNet Services applied for further time extensions on the remaining two zone substations until November 2020 and May 2021 to address the harmonics and damping issues prohibiting full compliance. AusNet Services previously contemplated pursuing technical exemptions in relation to these issues. However, we now believe that we have workable solutions in relation to these issues that will take additional time to implement. AusNet Services is awaiting an ESV decision on the further time extensions.

AusNet Services is required to report monthly to ESV to demonstrate progress. In the event that ESV is not satisfied with our progress, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services. ESV has sole discretion over whether any postponement is granted, and for how long.

(b) Taxation risks update

AusNet Services continues to be under audit from the Australian Tax Office (ATO). No new material information has come to light since year end and the tax risk provision recognised at 31 March 2019 remains unchanged at \$11.0 million. AusNet Services has completed the FY2019 tax return process and continues to actively engage with the ATO to obtain resolution on the audit matters. Having responded to a series of information requests, the ATO has extended its audit timetable, with estimated completion in May 2020 (previously December 2019) to allow time for review of information provided.

Condensed notes to the consolidated interim financial statements

30 September 2019

Note E.1 Contingent liabilities and contingent assets (continued)

(c) Other

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

Other than as listed above, we are not aware of any contingent liabilities or assets as at 30 September 2019 (2018: \$0).

Note E.2 Events occurring after the balance sheet date

(a) Dividend

The Directors have approved an interim dividend for FY2020 to be paid on 19 December 2019, comprised as follows:

	Cents per share	Total dividend \$M
Franked dividend	2.55	94.1
Unfranked dividend	2.55	94.1
	5.10	188.2

The AusNet Services Ltd DRP will be in operation for the FY2020 interim dividend, with shares allocated at a two per cent discount to the volume weighted average price.

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 30 September 2019 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- (a) the operations in the financial period subsequent to 30 September 2019 of the Group;
- (b) the results of those operations; or
- (c) the state of affairs, in the financial period subsequent to 30 September 2019, of the Group.

Directors' declaration

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

- (a) the interim financial statements and notes set out on pages 11 to 34, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 September 2019 and its performance for the six-month period ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Peter Mason
Chairman



Tony Narvaez
Managing Director

Melbourne
12 November 2019



Independent Auditor's Review Report

To the shareholders of AusNet Services Ltd

Report on the Interim Financial Report

Conclusion

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

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of AusNet Services Ltd is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 September 2019 and of its performance for the **Interim Period** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Consolidated statement of financial position as at 30 September 2019
- Consolidated interim income statement, Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the half-year ended on that date
- Notes comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

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

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 September 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of AusNet Services Ltd, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

The KPMG logo, consisting of the letters 'KPMG' in a stylized, handwritten-style font.

KPMG

A handwritten signature in blue ink, appearing to be 'BW Szentirmay'.

BW Szentirmay

Partner

Melbourne

12 November 2019

AusNet Services Ltd
ACN 603 317 559

Financial Report

For the financial year ended 31 March 2019

Contents

Directors' report	3
Lead auditor's independence declaration	46
Consolidated income statement	47
Consolidated statement of comprehensive income	48
Consolidated statement of financial position	49
Consolidated statement of changes in equity	50
Consolidated statement of cash flows	53
Notes to the consolidated financial statements	54
Directors' declaration	106
Independent auditor's report	107
Glossary of terms	115

This financial report covers the consolidated entity consisting of AusNet Services Ltd and its subsidiaries. The financial report is presented in Australian dollars.

AusNet Services Ltd is a company limited by shares, incorporated and domiciled in Victoria, Australia. Its registered office and principal place of business is:

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

A description of the nature of AusNet Services Ltd's operations and its principal activities is included in the Directors' report.

The financial report was authorised for issue by the Directors on 12 May 2019.

Directors' report

Introduction

The Directors of AusNet Services Ltd present their report on the general purpose financial report of the consolidated entity for the financial year ended 31 March 2019 (FY2019).

The financial report is for AusNet Services Ltd and its controlled entities (we, us, our, AusNet Services or the Group).

What we do

We are a diversified energy network business, owning and operating electricity distribution, gas distribution and electricity transmission businesses. 24 hours a day, we move energy safely, reliably and efficiently to over a million Australians through our networks of assets, services, people and solutions. In addition, through our Mondo business we provide contracted infrastructure, specialist metering, asset intelligence and telecommunication solutions to the utility and infrastructure sectors.

These activities are conducted through the following operating companies:

- AusNet Transmission Group Pty Ltd;
- AusNet Electricity Services Pty Ltd;
- AusNet Gas Services Pty Ltd; and
- Mondo Power Pty Ltd (formerly Select Solutions Group Pty Ltd).

Our Values

Our values are the foundation for how we achieve our business objectives:

We work safely

We do what's right

We're one team

We deliver

Directors' report

Our Board of Directors

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

Peter Mason AM – Independent Chairman (appointed March 2016)

Qualifications

Bachelor of Commerce (First Class Honours), University of New South Wales

Master of Business Administration, University of New South Wales

Honorary Doctorate, University of New South Wales

Experience and expertise

Mr Mason has over 40 years' experience in investment banking, including JP Morgan and Schroders and brings to the board a wealth of business experience. In addition to his investment banking career, Mr Mason has extensive experience as both a Chairman and a non-executive Director of listed companies including Chairman of AMP Limited and Chairman of David Jones Limited.

Mr Mason is currently a Director of Singapore Telecommunications Ltd (SingTel), a Senior Advisor to UBS, a Director of The Centre for Independent Studies and Chairman of the UBS Australia Foundation.

Mr Mason was a Trustee of the Sydney Opera House Trust for six years and a member of the Council of the University of New South Wales for 13 years. For 12 years he was a Director of the Children's Hospital in Sydney and Chairman of the Children's Hospital Fund for eight years. Mr Mason was appointed a Member of the Order of Australia for his contribution to the Children's Hospital.

Other current listed company directorships

Singapore Telecommunications Ltd (from 2010) (SGX-ST listed company)

Former listed company directorships in last three years

None

Special responsibilities

Chairman of the Board

Chairman of the Nomination Committee

Nino Ficca – Managing Director (appointed September 2005)

Qualifications

Bachelor of Engineering (Electrical – Honours), Deakin University

Graduate Diploma in Management, Deakin University

Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Ficca has over 30 years' experience in the energy industry, including numerous senior management roles with AusNet Transmission Group Pty Ltd (formerly SPI PowerNet Pty Ltd) including as Managing Director since 2003.

Mr Ficca is a member of the Deakin University Engineering Advisory Board. Mr Ficca is also a non-executive Director of Transurban Queensland and the Australian Energy Market Operator (AEMO).

He is the immediate past Chairman of the Energy Networks Association, and a past Chairman of CIGRE Australia.

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Managing Director

Directors' report

Our Board of Directors (continued)

Alan Chan Heng Loon – *Non-executive Director (appointed May 2018)*

Qualifications

Diplome d'Ingenieur

Master of Business Administration (INSEAD)

Experience and expertise

Mr Chan has significant experience in both the government and corporate sectors. From 2002 to 2017 he was Chief Executive Officer and a Director of Singapore Press Holdings Ltd (SPH) and was responsible for managing the SPH group's portfolio of businesses. His other prior directorships include Singapore Power Limited and The Development Bank of Singapore Ltd.

Before joining SPH, Mr Chan had a career in government spanning 25 years. Some of his government appointments included Permanent Secretary of the Ministry of Transport, Deputy Secretary of the Ministry of Foreign Affairs, Principal Private Secretary to Senior Minister Lee Kuan Yew and Director of Manpower, Ministry of Defence.

Mr Chan has also served as Chairman of the Urban Redevelopment Authority (Singapore) and was Chairman of the Corporate Governance Council that reviewed the Singapore Code of Corporate Governance in 2012. Mr Chan is currently Chairman of the Land Transport Authority (Singapore), Chairman of the Singapore-China Foundation and a member of the Public Service Commission (Singapore). He is also Deputy Chairman of Pavilion Energy Pte Ltd and Pavilion Gas Pte Ltd.

Mr Chan holds a Diplome d'Ingenieur from the Ecole Nationale de l'Aviation Civile, France and MBA (with Distinction) from INSEAD, France. He is a President's Scholar and was conferred the Public Administration Medal (Gold and Silver) and Meritorious Service Medal for his contributions to public service.

Other current listed company directorships

None

Former listed company directorships in last three years

Singapore Press Holdings Ltd (2002 to 2017) (SGX-ST listed company)

Special responsibilities

Member of the Remuneration Committee and the Nomination Committee

Ralph Craven – *Non-executive Director (appointed January 2014)*

Qualifications

Bachelor of Engineering (Electrical – First Class Honours), University of Queensland

Doctor of Philosophy, University of New South Wales

Postgraduate Diploma in Management, Deakin University

Postgraduate Diploma in Information Processing, University of Queensland

Experience and expertise

Dr Craven has significant experience across a range of industries having worked in the energy, resources, infrastructure and agribusiness sectors for more than 35 years. His professional background encompasses electricity and gas businesses, mining, commodities trading, and the management of large scale system operations at the national level and the delivery of major infrastructure projects. He has been a full time non-executive Director since 2007 and served on many boards in the public and private sector.

Dr Craven is the current Chairman of Stanwell Corporation Limited, the largest electricity generation company in Queensland. He is currently a non-executive Director and Chairman of Genex Power Limited and a non-executive Director of Senex Energy Limited and Multicom Resources Limited. His prior directorships include being non-executive Director and Chairman of Invion Limited, Ergon Energy Corporation Limited, Tully Sugar Limited and non-executive Deputy Chairman of Arrow Energy Limited. He has also been a non-executive Director of Windlab Limited and Mitchell Services Limited.

At the end of 2015 Dr Craven completed a six-year term as Director of the International Electrotechnical Commission (IEC) and Chairman of the IEC National Committee of Australia. He was CEO of Transpower New Zealand Limited and held senior executive positions in Shell Coal Pty Ltd and NRG Asia Pacific Limited.

Other current listed company directorships

Senex Energy Limited (from 2011)

Genex Power Limited (from 2015)

Former listed company directorships in last three years

None

Special responsibilities

Member of the Audit and Risk Management Committee and the Nomination Committee

Directors' report

Our Board of Directors (continued)

Sally Farrier – *Independent Non-executive Director (appointed January 2014)*

Qualifications

Bachelor of Chemical and Process Engineering (First Class Honours), University of Canterbury, New Zealand
Masters of Business Administration, Victoria University of Wellington, New Zealand
Post Graduate Diploma in Finance and Investment Analysis, Securities Institute of Australia

Experience and expertise

Ms Farrier is a professional non-executive director with over 15 years' experience serving as a director on private, public and government boards. For much of her career, Ms Farrier has worked in and alongside the water, electricity, gas, transport and infrastructure sectors, and as part of government, regulatory institutions and commercial businesses. She has specialist skills in policy, regulation and strategy and in significant reform and restructuring programs. Further to her non-executive director career, she continues to be engaged in an expert capacity including in relation to water management at Australian federal and state levels having served as a National Water Commissioner, a member of the Victorian Water Trust Advisory Council and numerous planning and regulatory bodies. She has a keen interest in effective governance, risk management and technology. Ms Farrier is also an active supporter of women entrepreneurs and innovation and is an active member of Scale Investors.

Ms Farrier is currently a director and Deputy Chairman of Kidney Health Australia. Her prior directorships include Meridian Energy Limited, Manidis Roberts Pty Limited, Hydro Tasmania and Western Power.

Other current listed company directorships

None

Former listed company directorships in last three years

Meridian Energy Limited (2012 to 2016) (Dual listed ASX & New Zealand Stock Exchange)

Special responsibilities

Chairman of the Remuneration Committee

Member of Audit and Risk Management Committee and the Nomination Committee

Li Lequan – *Non-executive Director (appointed October 2018)*

Qualifications

Bachelor of Atmospheric Physics and Atmospheric Environment, Nanjing University
Master of Atmospheric Physics and Atmospheric Environment, Research Institute of Atmospheric Physics of Chinese Academy of Sciences
Masters of Business Administration, City University, Washington USA

Experience and expertise

Mr Li is Senior Vice President and General Counsel of State Grid International Development Corporation Limited (SGID). He also serves as a Non-Executive Director of Redes Energéticas Nacionais, SGPS, S.A. in Portugal. He was previously a Director of ElectraNet Pty Ltd.

Mr Li began his career with the China Electricity Council in 1988 and has been in the power industry for approximately 30 years. Since 2009, Mr Li has worked in SGID and been in charge of the mergers and acquisitions of overseas power transmission and distribution assets.

Other current listed company directorships

Redes Energéticas Nacionais, SGPS, S.A. (since 2008) (Euronext Lisbon listed company)

Former listed company directorships in last three years

None

Special responsibilities

Member of the Remuneration Committee and the Nomination Committee

Directors' report

Our Board of Directors (continued)

Robert Milliner – *Independent Non-executive Director (appointed July 2015)*

Qualifications

Bachelor of Commerce, University of Queensland
Bachelor of Laws (Honours), University of Queensland
Master of Business Administration, University of Western Australia
Advanced Management Program, Harvard Business School, USA

Experience and expertise

Mr Milliner has extensive experience in the legal and corporate sectors and during his time in legal practice specialised in commercial law in major energy sector reforms, mergers and acquisitions, privatisation and infrastructure transactions. He is a Senior Adviser at UBS and Senior Adviser to the International Chamber of Commerce Secretary General. He is Chairman of the Australian Payments Council, a Director of the Global Infrastructure Hub Ltd, a member of the APEC Business Advisory Council and a Director of the Board of the Foundation for Young Australians. In 2013 and 2014 he was the B20 Australia Sherpa and coordinated the international business community's recommendations to the 2014 G20.

From 2004 to 2011 he was Chief Executive Partner of law firm Mallesons Stephen Jaques (now King & Wood Mallesons) and retired from Mallesons in January 2012 after 28 years as a partner.

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Member of the Audit and Risk Management Committee, Remuneration Committee and Nomination Committee

Nora Scheinkestel – *Independent Non-executive Director (appointed November 2016)*

Qualifications

Bachelor of Laws (Honours), Melbourne University
Doctor of Philosophy, Melbourne University

Experience and expertise

Dr Scheinkestel is an experienced Company Director with more than 25 years' experience as a non-executive Chairman and Director of companies in a wide range of industry sectors including the public, government and private sectors. Dr Scheinkestel has a long track record in the infrastructure sector. She has served as both Chairman and Director of a number of gas, water and electricity companies as well as other highly regulated sectors such as telecommunications and in industries facing significant disruption from technology and market changes.

Dr Scheinkestel is a former banking executive and has significant experience in international and project financing. She has extensive financial and risk management expertise, which includes having chaired the audit and risk committees of a number of listed companies. She is currently Chairman of Atlas Arteria Limited and a non-executive Director of Atlas Arteria International Limited, Telstra Corporation Limited and OceanaGold Corporation. She is also a Trustee of the Victorian Arts Centre Trust.

She is a published author of Rethinking Project Finance – Allocating and Mitigating Risk in Australasian Projects. Dr Scheinkestel is an Associate Professor in the Melbourne Business School at Melbourne University, a former member of the Takeovers Panel and was awarded a Centenary Medal for services to Australian society in business leadership.

Other current listed company directorships

OceanaGold Corporation (from 2018)
Atlas Arteria International Limited (from 2015)
Atlas Arteria Limited (from 2014)
Telstra Corporation Limited (from 2010)

Former listed company directorships in last three years

Stockland Corporation Limited (2015 to 2018)

Special responsibilities

Chairman of the Audit and Risk Management Committee and member of the Nomination Committee

Directors' report

Our Board of Directors (continued)

Tan Chee Meng – *Non-executive Director (appointed May 2016)*

Qualifications

Bachelor of Engineering (Civil – First Class Honours), University of Canterbury, New Zealand
Bachelor of Laws (Honours), National University of Singapore, Singapore
Master of Laws (First Class), University of Cambridge, UK

Experience and expertise

Mr Tan has dual qualifications in engineering and law and has over 30 years' experience in the legal industry, practising in the areas of general civil litigation, construction and engineering dispute resolution, criminal law, insurance, professional indemnity and disciplinary proceedings.

Mr Tan is a Director of Singapore Power Limited and Chairman of that company's Nominating Committee and a member of its Executive and Audit Committees. He also sits on the boards of Singapore Urban Redevelopment Authority and St Gabriel's Foundation. He is the Chairman of the School Management Committee of Assumption English School and a member of the Singapore Land Transport Authority's Kuala Lumpur-Singapore High Speed Rail Advisory Board.

Mr Tan spent his earlier career as a civil engineer before becoming a qualified legal practitioner holding offices of Deputy Senior State Counsel and Deputy Public Prosecutor in both the civil and criminal divisions of the Attorney-General's Chambers, and Deputy Director of the Commercial Affairs Department in Singapore. Mr Tan joined private practice in 1993, and was appointed Senior Counsel in 2006. He is currently the Deputy Chairman of WongPartnership LLP.

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Member of the Audit and Risk Management Committee and Nomination Committee

Former Directors

Sun Jianxing (resigned 1 October 2018)

Ho Tian Yee (retired 28 May 2018)

Directors' report

Our Executive Leadership Team

The persons listed below were members of the AusNet Services Executive Leadership Team during the whole of the financial year and up to the date of this report, unless stated otherwise.

Nino Ficca – *Managing Director*

Role

As Managing Director, Mr Ficca manages AusNet Services' operations and provides strategic guidance and direction to the Board to ensure that the Company achieves its mission and objectives.

Prue Crawford-Flett – *Executive General Manager, Operations and Services (appointed 1 April 2019)*

Bachelor of Engineering, Civil Engineering – RMIT University
Masters of Business Administration, Monash University

Role

Ms Crawford-Flett is responsible for the Operations and Services Division which brings together field operations and service delivery to our customers, including responsibility for the Delivery and Planning, Performance and Operations teams.

Experience and expertise

Ms Crawford-Flett joined AusNet Services as a member of the executive team on 1 April 2019. Prior to joining the company, Ms Crawford-Flett held a leadership role in Downer's Renewables and Power Systems business unit, providing services to some of Australia's largest energy businesses, including AusNet Services. She has extensive experience in the energy sector, gained through her time with Downer and from senior operational and project leadership roles with CitiPower and Powercor. Her earlier career also included significant operational management and project engineering roles in major building construction.

Matt Guthridge – *Executive General Manager, Strategy & Transformation*

Bachelor of Science, Monash University
Graduate Diploma in Psychology, Monash University
Doctor of Psychology (Organisational), University of Melbourne

Role

Dr Guthridge is responsible for managing the development and implementation of AusNet Services' corporate strategy, business planning and transformation agenda.

Experience and expertise

Dr Guthridge has more than 15 years' of strategy and transformation experience in assisting some of the world's leading energy and utilities companies. Prior to his appointment as the Executive General Manager – Strategy & Transformation in 2017, Dr Guthridge held senior consulting and leadership roles at McKinsey & Company (in London and Australia), PwC and The Boston Consulting Group (BCG). During his career, he led numerous multi-year strategy and transformation programs for some of the world's leading energy and utilities companies.

Claire Hamilton – *Executive General Manager, Governance and Company Secretary*

Bachelor of Arts (Business Studies – Honours), University of Sheffield, UK
Chartered Accountant (ICAEW)
Chartered Secretary
Graduate Certificate in Innovation and Service Management, RMIT

Role

Ms Hamilton is responsible for the legal, company secretarial, risk management, security and internal audit functions of AusNet Services.

Experience and expertise

Ms Hamilton became the Executive General Manager – Governance in 2016, and has extensive experience in the energy industry in risk management, governance, audit and financial accounting.

Prior to joining AusNet Services, Ms Hamilton gained significant external audit and advisory experience while working as a chartered accountant in both the United Kingdom and Australia. Ms Hamilton is a non-executive Director of the Energy and Water Ombudsman (Victoria), and is a past Director and vice-president of the Institute of Internal Auditors Australia.

Directors' report

Our Executive Leadership Team (continued)

Chad Hymas – *Executive General Manager, Mondo*

Bachelor of Business (Accounting), Monash University
Bachelor of Arts (Organisational Psychology), Monash University
Master of Business Administration, Deakin University
Certified Practising Accountant (ASCPA)

Role

Mr Hymas is responsible for the growth and strategic direction of the Mondo business which includes unregulated infrastructure services, emerging energy markets, utility and metering services and asset intelligence services.

Experience and expertise

Mr Hymas has extensive strategy, operations and finance experience in the energy sector, having worked for TXU, SPI Electricity and AusNet Services, since 2001. Having held numerous positions within AusNet Services, Mr Hymas was most recently General Manager, Strategy and Business Development, leading a broad range of strategic initiatives in strategy, transformation and business development. Mr Hymas began his career at Arthur Andersen, followed by various financial roles for Motorola Australia & New Zealand.

Geraldine Leslie – *Executive General Manager, People, Safety & Corporate Affairs*

Bachelor of Arts, University of Wollongong
Master of Business Administration, University of Wollongong

Role

Ms Leslie manages the human resources (HR), health, safety environment and quality and corporate affairs functions for the Group, known as the People, Safety & Corporate Affairs Division.

Experience and expertise

Ms Leslie commenced with AusNet Services in November 2009, having gained extensive experience in HR leadership roles within the manufacturing, health and local Government sectors. Prior to joining AusNet Services, Ms Leslie was employed by BlueScope Steel for almost nine years, holding senior executive HR leadership roles, including General Manager Human Resources for BlueScope's Australian Coated and Industrial Markets.

Adam Newman – *Executive General Manager and Chief Financial Officer*

Bachelor of Business, Western Australian Institute of Technology (now Curtin University)
Post Graduate Diploma of Business, Curtin University
Graduate Diploma in Applied Finance, Securities Institute of Australia
Chartered Accountant
Advanced Management Program, INSEAD, France

Role

Mr Newman is responsible for all key financial functions as well as Procurement, Investor Relations, Treasury, Insurance and Tax.

Experience and expertise

Mr Newman joined AusNet Services in 2013, having held numerous financial and operational roles at BlueScope Steel in Australia and the United States, including as General Manager, Commercial Australia and New Zealand, President Steelscape Inc. and CFO North America. Prior to joining BlueScope, Mr Newman worked at BHP from 1996 to 2001 in Corporate Strategy, Mergers and Acquisitions and Business Development. Mr Newman is a Chartered Accountant who also worked at Coopers & Lybrand's Corporate Advisory group from 1989 to 1996 in both Perth and London.

Directors' report

Our Executive Leadership Team (continued)

Alistair Parker – *Executive General Manager, Regulated Energy Services*

Bachelor of Engineering (Honours), Aston University, UK
Master of Business Administration, Lancaster University, UK

Role

Mr Parker is responsible for the Regulated Energy Services portfolio of businesses including three regulated energy networks, regulatory strategy and asset management.

Experience and expertise

Mr Parker has more than 30 years' experience in the energy industry, including a decade of senior leadership roles. Mr Parker joined AusNet Services in 2009 as Director, Regulation and Network Strategy prior to being promoted to General Manager – Asset Management. Before moving to Australia, Mr Parker spent 15 years with National Grid, UK, initially as an engineer, then moving into commercial roles. In 2000, he became a consultant with Ernst & Young in New Zealand before moving to PricewaterhouseCoopers in Australia, ultimately as Melbourne Energy Economics Practice Leader.

Mario Tieppo – *Executive General Manager, Technology*

Bachelor of Business (Accounting), Philip Institute of Technology
Certified Practising Accountant (ASCPA)
Senior Member, Australian Computer Society
Advanced Management Program, INSEAD, France

Role

Mr Tieppo manages organisationally aligned technology strategies and architecture to support the Group's long-term goals. Mr Tieppo also leads technology investments to improve operational effectiveness and digital innovation.

Experience and expertise

Mr Tieppo has more than 25 years' experience in Information Technology (IT), building IT functions and leading large business change programs. Mr Tieppo joined AusNet Services in 2013, following his role as Chief Information Officer for SA Power Networks. He has also held senior management positions in the government, postal utilities, retail and logistics sectors. In previous positions, Mr Tieppo has been responsible for strategy and planning, program and project management and the management of critical information systems. Mr Tieppo also has a strong financial background as a Certified Practising Accountant in the areas of financial management, audit and procurement.

Directors' report

Strategy

On 1 April 2019, we launched our new corporate strategy entitled “Energising Futures”. Energising Futures builds on the objectives of our ‘Focus 2021’ Strategy and responds to the new energy environment.

AusNet Services’ vision is “to create energising futures by delivering value to our customers, communities and partners”. Energising Futures is our strategy to respond to industry transformation driven by a shift towards renewables, new technologies, changing customer expectations and pressure on energy affordability. The five key objectives of the Energising Futures strategy are:

- Growth – achieve profitable and sustainable growth
- Cost efficiency – improve efficiency and reduce costs
- Customer centricity – enable customer choice and control
- Digital utility – invest in digital tools and processes to improve performance
- Future-ready capabilities and culture – ensure we have the right culture and capabilities for sustainable high performance and adapt to the future

During FY2019 achievements included the signing of over \$200 million of contracted assets and continued cost efficiency demonstrated in the FY2019 Financial Statements. In addition, we continue to invest in digital innovations and building our capability through the delivery of such innovations.

Directors' report**Operating & Financial Review**

We own and operate three regulated energy network businesses, which include Victoria's high voltage electricity transmission network, an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria, as well as our unregulated business, Mondo.

Safety performance

	FY2019	FY2018	Movement	%
Recordable Injury Frequency Rate (RIFR)	3.53	5.46	(1.93)	(35.3)

FY2019 saw a 35 per cent reduction in the recordable injury frequency rate. In FY2019 we implemented our Back to Basics strategy and continued to focus on critical risk areas. This result is the lowest RIFR score that AusNet Services has achieved.

Financial performance

The following table summarises our financial performance and key financial measures:

\$M	FY2019	FY2018	Movement	%
Revenue	1,861.5	1,909.8	(48.3)	(2.5)
EBITDA	1,134.2	1,142.9	(8.7)	(0.8)
NPAT	253.9	291.4	(37.5)	(12.9)
Cash flow from operations	813.7	886.4	(72.7)	(8.2)
Dividends per share (cents)	9.72	9.25	0.47	5.1
Return on equity (ROE)	7.3%	8.0%	(0.7%)	(8.8)

The impact of lower revenues was materially offset by the cost-efficiency program resulting in an EBITDA decline of 0.8 per cent versus a revenue decline of 2.5 per cent.

The \$48.3 million revenue decrease arose due to five main impacts:

- \$58.5 million reduction in regulated electricity distribution due to reduced incentive revenues and metering revenue hand back of previously received excess expenditures disallowed by the Australian Energy Regulator (AER);
- \$9.5 million reduction in gas revenues as a result of a 9.4 per cent decrease in gas tariffs in CY2018;
- \$29.6 million reduction in external Mondo revenues as a result of exiting numerous service contracts in the prior period as part of a strategic refocus away from providing certain maintenance services (with minimal impact on EBITDA); partly offset by
- \$22.1 million increase in electricity distribution customer contributions, primarily new housing developments; and
- \$19.7 million increase in transmission excluded revenues arising from customer asset replacement and relocation projects.

Compared to the prior year, results were also adversely impacted by increased depreciation, consistent with growth in the asset base and increased finance costs resulting from hedging adjustments and discounting changes to provisions. Both of these were non-cash items.

Cash flows from operations decreased 8.2 per cent reflecting a \$27 million decrease in current year cash earnings and in the prior year the benefit of a tax refund and favourable working capital movements.

A summary of our revenues and results by operating segment for the financial year ended 31 March 2019 is set out on the following pages.

Directors' report**Operating & Financial Review (continued)****Electricity transmission**

	FY2019	FY2018	Movement	%
Segment revenue (\$M)	618.2	601.9	16.3	2.7
Segment result – EBITDA (\$M)	390.4	379.8	10.6	2.8
Capital expenditure (\$M)	211.1	163.8	47.3	28.9

Higher transmission revenues were due to a number of significant customer initiated replacement and relocation projects.

Total transmission expenses increased \$5.7 million relative to FY2018; \$2.5 million additional costs in order to respond to the large increase in new transmission connections driven by renewable generation and \$3.2 million additional costs to implement several cost saving initiatives, particularly redundancies.

Capital expenditure increased primarily as a result of \$33.2 million of wind farm connection interface works (2018: \$1.9 million) as well as an increase in excluded projects (primarily customer initiated relocations). Major terminal station rebuilds at Richmond and West Melbourne make up \$49.6 million of the spend.

Electricity distribution

	FY2019	FY2018	Movement	%
Segment revenue (\$M)	866.2	891.4	(25.2)	(2.8)
Segment result – EBITDA (\$M)	528.5	540.2	(11.7)	(2.2)
Volume (GWh)	7,608	7,716	(108)	(1.4)
Connections	736,841	722,046	14,795	2.0
Capital expenditure (\$M)	461.0	439.3	21.7	4.9

Revenue reductions, consistent with the half year, are due to \$29.1 million lower incentive revenues (\$31.0 million in FY2018, \$1.9 million in FY2019 due to lower reliability performance in CY2016) and a \$29.4 million reduction in metering revenue, primarily due to the hand back of previously received excess expenditures disallowed by the AER. Offsetting these is a \$22.1 million increase in customer contributions, primarily new housing developments and revenue cap outperformance of \$3.8 million (see below for further comment).

Operating expenses decreased \$13.5 million (net) as a result of the cost efficiency program, with new contractual arrangements in vegetation management and corporate support functions, in particular, reducing costs.

Capital expenditure rose as a result of a \$23.6 million increase in Rapid Earth Fault Current Limiter (REFCL) program. REFCL devices are being installed to reduce the risk of a bushfire caused by a fallen powerline.

Future revenue impacts

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

- There is a difference between the regulated revenue recognised under our accounting policy, and the revenue cap under the Electricity Distribution Price Review (EDPR) determination. This difference is trued-up as an adjustment to tariffs in future periods. At 31 March 2019 we have a cumulative over-recovery of \$7.1 million which will reduce our revenue in CY2019 and CY2020.
- The AER's decision on our 2016 Advanced Metering Infrastructure (AMI) Transition Charges Application will result in future revenue reduction of \$23 million (approximately \$15 million in FY2020 and \$8 million in FY2021).
- In CY2019, we re-commenced earning incentive revenues under the Service Target Performance Incentive Scheme (STPIS) and are entitled to \$19.4 million as a result of our CY2017 network reliability performance of which we have received \$1.9 million and will receive approximately \$7.8 million in the remainder of CY2019 and \$9.7 million in CY2020.

Directors' report**Operating & Financial Review (continued)****Gas distribution**

	FY2019	FY2018	Movement	%
Segment revenue (\$M)	215.1	224.6	(9.5)	(4.2)
Segment result – EBITDA (\$M)	152.5	162.3	(9.8)	(6.0)
Volume (PJ)	63.3	66.0	(2.7)	(4.1)
Connections	711,310	692,282	19,028	2.7
Capital expenditure (\$M)	106.8	96.9	9.9	10.2

Regulated gas distribution revenues and EBITDA declined as a result of a 9.4 per cent decrease in gas tariffs for CY2018.

The increase in capital expenditure reflects higher levels of customer connections and augmentations to the network.

Mondo (previously Commercial Energy Services)

	FY2019	FY2018	Movement	%
Segment revenue (\$M)	172.1	206.2	(34.1)	(16.4)
Segment result – EBITDA (\$M)	62.8	60.6	2.2	3.6
EBITDA Margin (%)	36.5	29.4	7.1	24.1
Capital expenditure (\$M)	190.9	50.2	140.7	280.3

The Mondo business provides a range of services and technology for essential infrastructure across the energy, water and transport sectors. Mondo provides contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. The contracted infrastructure asset services business unit owns and operates a portfolio of assets that are not included in the regulated asset base. The investments are made through directly negotiated agreements, under which we typically receive revenue over the contract period in exchange for infrastructure use and operational services provided.

Revenues reduced by \$34.1 million predominantly as a result of the strategic refocus executed in FY2018 reducing the provision of certain maintenance services resulting in exiting a number of field services agreements. EBITDA margins improved as a result of the refocus and a change in revenue mix towards higher margin infrastructure, energy data and asset intelligence projects.

Capital expenditure in FY2019 primarily relates to three wind farm connections under construction, the completion of the Salt Creek, Bulgana and Crowlands windfarm connections and the Ballarat Battery Energy Storage project.

Directors' report

Financial position

Total equity of the Group was \$3,289.1 million as at 31 March 2019, a decrease of \$266.9 million compared to the previous financial year, primarily attributed to the hedge reserve movement for the year.

Our current liabilities exceed current assets by \$639.0 million at 31 March 2019. We have prepared the financial report on a going concern basis, which contemplates the continuity of normal trading operations. The Group is, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2019, the Group has available a total of \$778.0 million of undrawn but committed bank debt facilities and \$339.4 million of cash (primarily used for a bond repayment in April 2019).

Non-current assets increased by \$454.3 million compared to prior year, largely due to the \$969.8 million of capital expenditure invested into the asset base offset by the depreciation of our assets.

Non-current liabilities increased by \$81.5 million due primarily to a net increase in long term debt.

Capital management

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

Debt raising

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

In line with our Treasury Risk Policy, we maintain a diversified debt portfolio by maturity and source. AusNet Services has an A- credit rating from Standard and Poor's and A3 from Moody's Investor Services. This contributed to the successful completion of over \$1 billion of debt raising in the current year as follows:

- an A\$200 million 25-year bond issue in May 2018;
- A\$700 million of bank facilities in August 2018 for a combination of five, six and seven year terms;
- a NOK 1.5 billion (A\$246 million) 10-year bond issue in March 2019; and
- a HKD 610 million (A\$110 million) 15-year bond issue in March 2019.

These bond issuances/facilities satisfy our refinancing requirements for the next twelve months.

Dividends

Dividends paid to shareholders during the financial year were as follows:

	Final 2018		Interim 2019	
	Cents per share	Total dividend \$M	Cents per share	Total dividend \$M
Unfranked ordinary dividend	4.62	166.8	2.92	105.4
Franked ordinary dividend	-	-	1.94	70.3
	4.62	166.8	4.86	175.7

Since the end of the financial year, the Directors have approved a final dividend for FY2019 of \$177.5 million (4.86 cents per share) to be paid on 27 June 2019. The final dividend will be 45 per cent franked.

Dividend Reinvestment Plan (DRP)

In relation to the final 2018 dividend paid the DRP was not operational. In relation to the interim 2019 dividend paid on 20 December 2018, \$59.3 million was utilised in the allotment of new shares issued under the DRP, representing a take-up rate of approximately 36 per cent.

Directors' report

Material risks and uncertainties

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

Industry and regulatory risks

Industry developments

The energy industry is currently experiencing a period of unprecedented change and uncertainty, with a significant focus on environmental issues, energy security, reliability and affordability. Various political, regulatory and industry bodies continue to debate, recommend and implement various reform programs that could have significant impacts on the operation of the energy market and could have significant impacts on our business.

A number of regulatory and policy reviews have been completed in the current year including:

- In December 2018, the AER completed its review of the Rate of Return Guideline. The National Electricity Rules require a review to be completed every five years. The 2018 review reduced overall rates of return by approximately 40 basis points, with the market risk premium reduction and Gamma increase being the main changes. The new guideline will be applied from our next regulatory resets and will begin adversely affecting revenues from 1 January 2021, being the next reset date of our electricity distribution network.
- In December 2018, the AER completed its regulatory tax approach review. While not changing the incentive based model, the review did address depreciation method mismatches and will adjust for immediate deduction in relation to certain asset replacement works. As a result of this change in application of the regulatory tax approach, we will see reduced revenues from 1 January 2021 in relation to tax allowances. Over the long term, we will receive the same quantum of tax allowances, however this adjustment to the approach will result in revenue reductions from CY2021 as the change will be applied prospectively to new assets added to the network from 1 January 2021.
- The Security of Critical Infrastructure Act 2018 came into effect in July 2018. This Act creates a critical assets register to provide the Government with greater visibility and understanding of who controls and has access to critical infrastructure assets. As an owner and operator of critical infrastructure assets, we are impacted by the Act. We continue to work through our reporting obligations of the Act to ensure compliance.
- During FY2019, the Energy Security Board (ESB) released advice on how to implement the Australian Energy Market Operator's (AEMO) Integrated System Plan (ISP), while the Australian Energy Market Commission (AEMC) released the final report on its review of the coordination of generation and transmission investment. Together these reports outline a considerable pipeline of work to reform the planning, investment, charging, congestion and access elements of the transmission network. These and other proposed reforms have the potential to introduce new risks and opportunities to our transmission business.

In addition to policy development, traditional energy models are changing with the closure of coal-fired power stations and the increase in renewable and distributed generation and storage. These changes are driven by changes in technology, environmental and regulatory policies, customer expectations and cost. These changes are expected to continue in the future and impact our physical networks' and regulatory framework and the need to adapt and provide services to customers.

We continue to play a key role in the reform of the industry in terms of our active contribution in the current reviews and the trial of new technologies on our network. Our objective is to actively participate in shaping industry development and to lead and deliver network transformation.

Transition to metering competition in Victoria

On 26 November 2015 the Australian Energy Market Commission (AEMC) published its final determination and final rule on expanding competition in metering and related services (Power of Choice). In March 2017, the Victorian Government deferred the adoption of metering competition in Victoria. Victorian electricity distributors will remain responsible for metering services for all small customers until at least 1 January 2021 and the Victorian smart metering specification will remain in place.

The Victorian Government proposed that a review be undertaken prior to 1 January 2021 to determine whether metering competition should be introduced in Victoria. The review will examine the benefits to Victorian electricity users of switching to the national regime, the impact of competition in metering services on particular customer groups, how potential barriers to distributors access to metering data can be addressed and the experience of other jurisdictions in implementing metering competition.

Directors' report

Material risks and uncertainties (continued)

Industry and regulatory risks (continued)

Rapid Earth Fault Current Limiter (REFCL) program

On 1 May 2016, the Electricity Safety (Bushfire Mitigation) Amendment Regulations 2016 (Amended Bushfire Mitigation Regulations) came into effect in Victoria. The amended regulations require Victorian distributors to install REFCLs at designated zone substations. The purpose of the REFCL devices is to reduce the risk of a bushfire caused by a fallen powerline.

AusNet Services is one of three electricity distributors required to implement REFCL devices. Our program has been separated into three tranches, the following table details the requirements of each tranche and progress made to date:

	Tranche 1	Tranche 2	Tranche 3
Compliance period	1 May 2019 to 30 April 2021	1 May 2021 to 30 April 2023	1 May 2023 onwards
Zone substations	8	10	4
Minimum number of points* required by the Act	30	23 (53 total)	10 (63 total)
Direct spend approved by the AER (\$M)	95	137	TBC**
Zone substations commissioned	8	-	-

* Each zone substation is attributed a point score from 1 to 5, with the highest value attributed to those zone substations where fire mitigation measures would provide the greatest benefit, depending on the degree of bushfire risk.

** Subject to future contingent project application.

This program presents several risks, including funding, technology, vendor, compliance and delivery risks, which are being actively managed. Each Tranche faces these risks to varying degrees. The following section provides specific commentary on Tranche 1.

Tranche 1 compliance

AusNet Services has eight zone substations commissioned with REFCL technology. However, some issues have been identified during the testing of installed REFCLs related to the technical characteristics of existing equipment at various sites. This means that the achievement of the "required capacity" under the regulations is challenging due to the new use of this technology and its interaction with the existing network. While we continue to actively work on resolving these issues, delays are expected to achieving full compliance with the legislative requirements detailed below.

The amended Electricity Safety Act 1998 (Vic) (ESA) enables Energy Safe Victoria (ESV) or the Minister to apply to the Supreme Court of Victoria, seeking the imposition of significant financial penalties if AusNet Services fails to achieve the number of points prescribed by the Regulations throughout the applicable compliance period. The legislation provides that the Court can impose a maximum penalty of \$2 million per point for each station that AusNet Services has not achieved compliance. Accordingly, penalties of up to \$10 million per zone substation can apply if AusNet Services fails to achieve the required capacity during the relevant compliance period. Additionally, the Court can impose a maximum daily penalty of \$5,500 for each day AusNet Services remains non-compliant.

ESV-observed compliance testing was completed in early April 2019. ESV has confirmed that six of these zone substations totalling 23 points have achieved conditional compliance. Conditional compliance means that the ESV has accepted that AusNet Services has successfully commissioned the REFCL devices and they are functioning at a level acceptable to ESV, however there are further steps required to meet full compliance. ESV has set a time frame of the beginning of the next bushfire season to complete these further steps.

Two of the zone substations have not achieved conditional compliance, and we have submitted applications to ESV requesting postponement of the commencement of the Tranche 1 Compliance Period until 1 November 2019 in relation to those two zone substations. In the event that ESV does not agree to this request, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services. ESV has sole discretion over whether any postponement is granted, and for how long.

Directors' report

Material risks and uncertainties (continued)

Industry and regulatory risks (continued)

Rapid Earth Fault Current Limiter (REFCL) program (continued)

In some instances, full compliance may not be possible without incurring considerable additional expenditure. Given the challenges associated with achieving full compliance and the incremental cost/benefit, AusNet Services is working with relevant parties to explore amending the program requirements through technical exemptions, for which there are specific provisions in the legislation. At present, none of our zone substations have achieved full compliance. If full compliance is not achieved by the beginning of the next bushfire season and ESV does not grant technical exemptions, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services.

Impact of voltage standard review

Since publication by the AER of their final decision on cost recovery for tranche one of the project the Essential Services Commission Victoria (ESCV) completed its review of the voltage standards in the Victorian Electricity Distribution Code (VEDC). Of particular relevance to the AER's decision on tranche two, the revised VEDC that came into effect on 20 August 2018 identifies high voltage (HV) customers as responsible for ensuring their electrical assets are able to withstand higher voltages occurring during REFCL operation. We are currently working with affected high voltage customers to ensure that they protect their assets from increased voltages. There is a risk that delays with HV customers implementing acceptable modifications to their assets may result in delays to the delivery of Tranche two of the program.

Price determinations

The energy industry in Australia is highly regulated. The regulated component of our revenues (approximately 86 per cent of total revenues for the year ended 31 March 2019) are 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. The upcoming regulatory reset dates for our electricity transmission network, gas distribution network and electricity distribution network are 1 April 2022, 1 January 2023 and 1 January 2021, 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 our costs, this may adversely affect our financial performance and position. In addition, we are exposed to cost changes within a regulatory control period and bear the risk of any shortfall in allowances for costs provided by regulatory determinations. The regulator applies 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 particularly subject to benchmarking comparisons to set efficient levels going forward.

We carefully manage these risks in a number of ways. Prior to the commencement of a regulatory period, we develop a detailed plan of works to be undertaken and costs to be incurred as well as energy and maximum demand forecasts. Particular emphasis is placed on ensuring that we continue to maintain safe, resilient and reliable networks and that the costs to be incurred are efficient and prudent. This information is submitted to the AER as part of the determination process, and where appropriate the views of industry and other external experts are sought to be included in the submission.

AusNet Services is the first Australian energy business to trial a new process. This involved the establishment of a Customer Forum which has formed part of our 2021-25 EDPR proposal. During the regulatory period we continuously monitor and manage our costs through processes and systems which produce high quality data and enable efficiency, effectiveness and control. In addition, through our enterprise-wide efficiency program we aim to improve our benchmark performance.

Network risks

Our 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 (including cyber-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 our 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 our business and reputation. Our emergency response, crisis management and business continuity management system is the approved methodology to guide response and recovery activities. However, it may not be able to effectively protect our business and operations from these events.

We are 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 within a network, requiring a large scale replacement program.

Directors' report

Material risks and uncertainties (continued)

Network risks (continued)

Only some such incidents are covered by plant warranties and in some instances these warranties may only be partial. Additionally, incidents in our zone substations and terminal stations have property insurance cover, however incidents outside the boundaries of our 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 our financial performance and position.

The changing generation mix in Victoria and the location of generators in the future may impact the configuration of the electricity transmission network and increases the risk of redundant assets in the event of significant network configuration changes. We continue to work closely with all stakeholders associated with the planning and development of generating capacity to manage such risk.

Funding and market risks

We rely on access to financial markets as a significant source of liquidity for growth capital requirements not satisfied by operating cash flows. Our access to financial markets could be adversely impacted through various factors, such as a material adverse change in our business or a reduction in our credit rating. The inability to raise capital on favourable terms, particularly during times of uncertainty in the financial markets, could impact our ability to sustain and grow our capital-intensive businesses, and would likely increase our cost of capital. AusNet Services operates a DRP, with discount levels that have varied between zero and 2.5 per cent. The use of a DRP and the level of discounting is dependent upon growth capital funding requirements at a point in time.

Furthermore, we have a large amount of debt, with a net debt to Regulated and Contracted Asset Base ratio at 31 March 2019 of 67 per cent (excluding equity credit for the \$706 million of hybrid instruments). The degree to which we may be leveraged in the future could affect our ability to service debt and other obligations, to pay dividends to shareholders, to make capital investments, to take advantage of certain business opportunities, to respond to competitive pressures or to obtain additional financing. In addition, we are exposed to a number of market risks associated with this debt, including interest rate and foreign currency risk.

We effectively manage these risks in accordance with our Treasury Risk Policy which is approved by the Board and reviewed by the Audit and Risk Management Committee periodically. Under this policy, we aim to have a diverse funding mix in terms of source and tenor and proactively monitor and manage our credit metrics. This enables us to maintain an 'A' range credit rating, ensures continued access to various markets and limits the funding requirement for any given year. In addition, through the use of derivative financial instruments we aim to hedge 90 to 100 per cent of our interest rate risk.

Climate change and sustainability risks

As an owner and operator of energy networks, AusNet Services is focussed on the identification and management of both transition and physical risks of climate change.

Transition risks include the impacts of potential changes to energy policy, legislation and regulations as the energy industry moves to a lower carbon future, with increasing renewable and distributed generation. The implications of these changes are outlined in the industry and regulatory risks and network risks sections.

Other transition risks and opportunities arise from changes in customer preferences and developments in renewable energy and energy storage technology. As part of our active monitoring of new technology we undertake trials (including mini-grids), and partner with other organisations to better understand the risks and benefits for our business.

Physical risks include the impacts of changing environmental conditions (both short and longer term) on our network assets and the potential damage to assets and interruptions to supply from severe weather events such as storms, bushfires or floods. Risk management for these risks includes reviewing engineering standards and ratings for equipment, a significant investment in bushfire mitigation activities and the ongoing development and testing of emergency response plans. In addition, we have continued our network resilience program to strengthen critical parts of the network and enhance contingency planning.

In FY2019 we further increased customer engagement on community resilience, including increased pre-summer communications and media for customers to be bushfire ready; increased communications capability to alert customers about unplanned outages and load shedding, with particular focus on life support customers; and customer recruitment for the expansion of our "GoodGrid" residential demand management program.

Directors' report

Material risks and uncertainties (continued)

Information and communication technology risks

The drive to reduce carbon emissions, customers' increasing needs for higher levels of reliability and the reduction in the cost of digital technology have resulted in a greater role for technology in the enablement, management and operations of utility networks. The greater role of technology comes with an increased risk and potential impact of cyber-attacks. This increased focus on the role technology plays in the management and operations of utility networks will require the introduction of new digital technology platforms. In the event there is any significant delay in the development of new technology, this may negatively impact our revenue or require unforeseen capital investment to replace obsolete technology.

In addition, as with all new business solutions, there are risks associated with solution design, implementation, budgeting, planning, integration, future maintenance, upgrades and support. The realisation of any such risks could adversely impact the effectiveness and cost of such a solution and business continuity.

AEMC rule changes commence on 1 July 2021, which change the settlement period for the electricity spot price from 30 minutes to five minutes. This rule may require additional investment in metering and IT systems, with increased data collection and management requirements. Similar to metering contestability, the application of the AEMC rule is subject to approval from the Victorian Government.

To mitigate these risks, we have established a centralised architecture, delivery and governance capability to ensure technology needs are delivered successfully through an architecturally-led approach with appropriate governance applied.

Taxation risks

As a large taxpayer, the Australian Tax Office (ATO) annually reviews the income tax return and various tax positions adopted by AusNet Services. There is the risk that changes in tax law, or changes in the way tax laws are interpreted, may materially impact the tax liabilities of the Group. AusNet Services manages this risk via a Board-approved Tax Risk Management policy which outlines a number of review and sign-off procedures, including the utilisation of external tax and legal advisors, for each tax position based on the assessed level of judgment of that position.

During the year, the ATO completed a Pre-Lodgement Compliance Review (PCR) for the income years 31 March 2017 and 31 March 2016. The PCR identified matters in respect of capital allowances for which the ATO sought additional information and where the interpretation of tax laws affects the amount of provision for income tax and deferred tax balances recognised. In December 2018, the ATO commenced an audit review in relation to the profile of capital allowances (tax depreciation profile and entitlements) following the corporate restructure in June 2015. AusNet Services expects further detailed engagement with the ATO. The audit is expected to be completed by December 2019.

While work is ongoing and there are a range of possible outcomes, a tax risk provision of \$11.0 million has been recognised based on a probability-weighted range of possible outcomes. AusNet Services continues to engage cooperatively with the ATO through the course of the audit, with the intention of resolving these issues without requiring this provision.

Directors' report – Remuneration report (audited)

Dear Shareholder,

On behalf of the Board I am pleased to introduce our FY2019 Remuneration Report, for which we seek your support at our Annual General Meeting (AGM) on 18 July 2019.

This letter comments briefly on the remuneration outcomes for FY2019, which are covered in detail in the Remuneration Report. Also, it provides an update on the Board's approach to reviewing and adjusting remuneration arrangements to ensure they are relevant, effective and support business performance.

AusNet Services FY2019 remuneration outcomes

The remuneration paid to the Managing Director and in aggregate to Executive Key Management Personnel (KMP) in FY2019 was lower than that paid in FY2018. This outcome reflects:

- The Board's focus on ensuring their changes to executive remuneration are well considered and have a sound market and business basis. There were no changes to fixed annual remuneration (FAR) of the Managing Director or other Executive KMP during FY2019, with the exception of one KMP, Mr Tieppo.
- Lower Short Term Incentive (STI) payments, resulting from the Board's assessment of overall performance against financial and strategic targets. Financial performance exceeded target parameters for headline EBITDA and ROE. Performance against specific strategic targets across the business varied; while there was strong growth in the unregulated asset portfolio, regulated business operating cost efficiencies were slightly below target and progress toward a nationally consistent transmission planning framework was less than planned. The Managing Director's Short Term Incentive (STI) payment was lower than in FY2018 with vesting of 105 per cent of target compared to 110 per cent for FY2018. Executive KMP average STI vesting decreased to 99 per cent compared to 107.5 per cent for FY2018.
- Lower Long Term Incentive (LTI) payments; testing of the 2016 grant resulted in 54.3 per cent vesting compared to 85.9 per cent for FY2018. While relative total shareholder return was strong at 63.9 percentile, and return on invested capital of 4.7 per cent was within the performance range, the compound annual earnings per share growth (EPS CAGR) of negative 21 per cent meant that a portion of the award achieved zero vesting.

In relation to Non-executive Director remuneration, no increases were made to base Non-executive Director fees and Committee fees.

Changes to remuneration arrangements in FY2019 and FY2020

Last year I foreshadowed that some changes to executive remuneration would be made following market review. The increase in Mr Tieppo's FAR is a result of that review. Other changes were put on hold pending organisational changes and clarity on business strategies; these changes will be affected in FY2020.

For the FY2019 Short Term Incentive arrangements of the Managing Director and Executive KMP, the Board introduced an additional performance gateway relating to Culture and Capability, applying to the strategic KPI component of each executive's STI Scorecards. The Board considers the link between delivering on business performance and driving the right culture, behaviours and capability is critical to the delivery of sustainable business performance. For FY2020, we have embedded a Conduct, Capability and Culture moderator within our performance framework and STI assessments. This moderator reinforces the Board's expectations that achieving good results is not just about *'what'* is achieved, but equally, *'how'* they are achieved.

The Board is reviewing clawback provisions within KMP incentive programs for FY2020 and beyond to strengthen the Board's ability to claw back or cancel vested incentives for a broader range of potential events or circumstances. Notwithstanding any amendments, the Board will retain absolute discretion in relation to the vesting of incentives at the end of a performance period.

In demonstration of its commitment to ensuring a diverse and inclusive workforce within AusNet Services, the Board has set an objective for FY2020 to identify and close any gender based pay differentials and is actively monitoring progress toward achieving this objective.

Reporting, communication and engagement

We will continue to actively engage with stakeholders to seek their feedback and understand their perspectives on our remuneration arrangements and developments in the remuneration environment.

On behalf of the Board, I thank you for your support and feedback, and commend this report to you.

Regards



Sally Farrier

Remuneration Committee Chairman

Directors' report – Remuneration report (audited)

Introduction and Contents

This report sets out the executive remuneration outcomes for FY2019 and provides details around the outcomes for remuneration components.

The report explains the Board's reasoning and considerations relating to the remuneration framework, specifically concerning how the structure of remuneration, and the implementation of the framework support the business strategy and drive sustainable business performance and shareholder outcomes.

The report has been prepared and audited against the disclosure requirements of the *Corporations Act 2001* (Cth).

The report is structured similarly to recent reports, given positive feedback about readability and also to assist stakeholders assess longer term performance. Information within this report has been laid out in the following sections:

Section		Page
1	Key Management Personnel	24
2	Executive KMP Remuneration	25
3	FY2019 Performance and Remuneration Summary	28
4	FY2019 Executive KMP Incentive Plans Detailed Outcomes	31
5	Non-executive Directors	36
6	Remuneration Governance	37
7	Statutory Remuneration Disclosures	38

Directors' report – Remuneration report (audited)**1 Key Management Personnel**

AusNet Services' KMP are assessed each year by the Board and comprise the Directors of the company and Senior Executives. KMP have authority and responsibility for planning, directing and controlling the activities of AusNet Services.

Those that are assessed to be KMP for FY2019 were as follows:

Name	Position	Date Appointed as KMP
Non-executive Directors		
Peter Mason	Non-executive Chairman (Appointed as Chairman 11 May 2016)	March 2016
Alan Chan Heng Loon	Non-executive Director	May 2018
Ralph Craven	Non-executive Director	January 2014
Sally Farrier	Non-executive Director	January 2014
Li Lequan	Non-executive Director	October 2018
Robert Milliner	Non-executive Director	July 2015
Nora Scheinkestel	Non-executive Director	November 2016
Tan Chee Meng	Non-executive Director	May 2016
Executive KMP		
Nino Ficca ¹	Managing Director	September 2005
Chad Hymas	Executive General Manager, Mondo	April 2013
Adam Newman	Executive General Manager and Chief Financial Officer	March 2013
Alistair Parker	Executive General Manager, Regulated Energy Services	April 2013
Mario Tieppo	Executive General Manager, Technology	September 2013

¹ Mr Ficca was appointed as Managing Director upon listing on the Australian Stock Exchange.

Former Key Management Personnel:

Mr Tian Yee Ho retired from the Board as a Non-executive Director and ceased to be a KMP effective 28 May 2018. Mr Sun Jianxing resigned from the Board as a Non-executive Director and ceased to be a KMP effective 1 October 2018.

Key Management Personnel Changes Subsequent to 31 March 2019:

On 1 April 2019, Prue Crawford-Flett joined AusNet Services in the new position of Executive General Manager – Operations and Services. Given the breadth and scope of this position, it is expected to be disclosed as a KMP in the FY2020 financial report.

Directors' report – Remuneration report (audited)

2 Executive KMP Remuneration

What are we seeking to achieve, and avoid, through our approach to executive remuneration?

The Board aims to ensure design and implementation of the executive remuneration framework:

- Reinforces business strategy and core values
- Supports and drives sustainable business performance
- Enables the business to develop, retain and grow capabilities, expertise and build diverse, resilient leaders
- Provides clarity
- Signals what is important about the what, how and why of AusNet Services' business
- Stands up to scrutiny, is objective, based on strong principles and draws on empirical analysis.

At the same time, the Board is looking to avoid remuneration arrangements which:

- Reward outcomes or behaviours which are at odds with sustainable business outcomes
- Deliver conflicting or confusing signals about priorities or values
- Work against transparency or constructive and critical discussions and debates.

What is the basis for the three-component remuneration structure?

AusNet Services' executive remuneration structure is based on three components, being fixed annual remuneration, short-term incentive and long-term incentive components.

The Board considers that this structure well supports the business' performance and strategy, and consciously assesses the specific role of each component in that support.

Executive KMP Reward Structure		
Fixed Annual Remuneration (FAR)	Short Term Incentive (at risk)	Long Term Incentive (at risk)
The fixed annual remuneration component is essential for attracting and retaining talent, and ensuring the business has access to the critical capabilities, capacity and leadership.	The short-term incentive drives transformation and progress in initiatives that are part of longer term strategic goals.	The long-term incentive seeks to ensure that decisions are made which drive long term sustainable outcomes and align executive and shareholder financial outcomes.
Setting effective quantum, performance measures, targets and performance ranges		
FAR decisions are based on market data, comparable roles, knowledge, individual performance and growth in capability.	The STI opportunity for KMP is determined with reference to market practice, the nature of the KMP's role and the overall reward mix.	The LTI opportunity is determined with reference to market practice and overall reward mix
Trends in FAR market movements and compression ratios are monitored to ensure FAR outcomes are fair and competitive.	The performance measures are informed by business and strategic planning, business performance, external developments and trends.	The measures, targets and vesting scales are set drawing on the long-term value drivers and are informed by historical analysis, scenario testing and assessed effectiveness.
There are no guaranteed FAR increases in Executive KMP contracts of employment.	Targets and performance ranges are informed by historical analysis, scenario testing and assessed effectiveness.	

Directors' report – Remuneration report (audited)

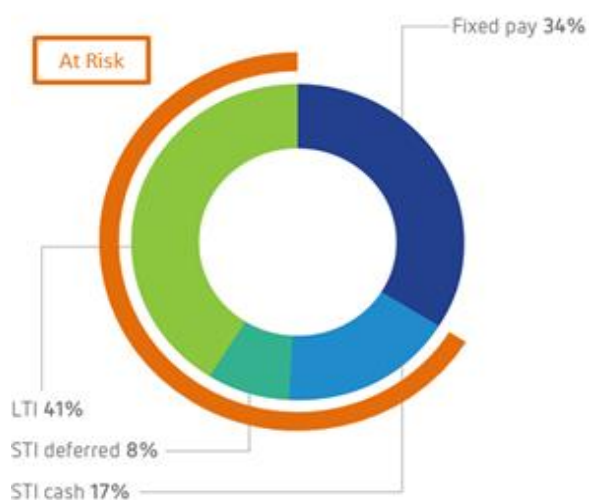
2 Executive KMP Remuneration (continued)

For FY2019, the detailed incentive remuneration design elements assessed to derive FY2019 outcomes applicable to the Managing Director and other Executive KMP were as follows:

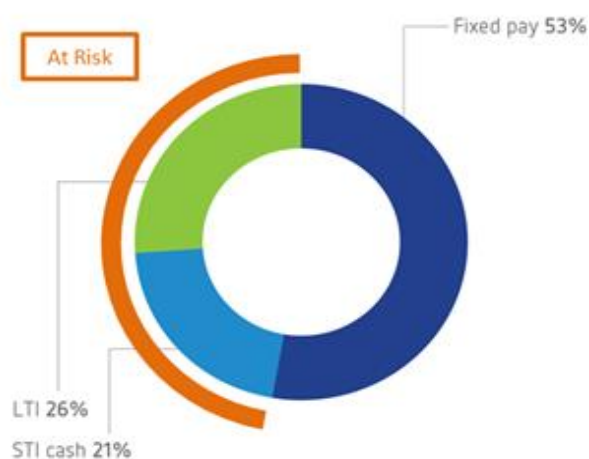
FY2019	Short Term Incentive (at risk)			Long Term Incentive (at risk)	
Performance Period	FY2019			FY2017 – FY2019	
Incentive Opportunity	Threshold	Target	Maximum	Threshold	Maximum
Managing Director	37.5%	75%	112.5%	21%	120%
	(percentages of FAR)			(percentages of FAR)	
	Award delivered as two thirds paid as cash one third deferred rights (two-year deferral period)			Delivered as performance share rights	
Other Executive KMP	20%	40%	60%	9%	50%
	(percentage of FAR)			(percentage of FAR)	
	Awards paid as cash			Delivered as performance share rights	
Performance measures	- STI scorecard KPIs include selected financial and non-financial measures: - Two financial measures - EBITDA and Return on Equity (ROE) reflect ability to grow revenues, exhibit cost control and effectively manage working capital. - Non-financial measures cover safety, customer outcomes and performance against strategic initiatives (individual specific). - Total STI subject to gateway performance criteria relating to cash flow from operations, culture and capability and safety performance.			- LTIP KPIs are Relative Total Shareholder Return (TSR) (50 per cent), Earnings per Share (EPS) growth (25 per cent) and Return on Invested Capital (ROIC) (25 per cent). - TSR measures returns generated from the investments made against performance of comparator group. - EPS provides tangible measure of shareholder value creation. - ROIC measures returns generated from investments in operations.	

The resultant total reward mix for the Managing Director and Executive KMP are shown below, assuming business performance results in target vesting for STI and maximum vesting for LTI. The proportion of remuneration at risk equates to 66% for the Managing Director and 47% for Executive KMP.

MANAGING DIRECTOR



OTHER EXECUTIVE KMP



Directors' report – Remuneration report (audited)**2 Executive KMP Remuneration (continued)**

Terms of employment and incentive plans for the Managing Director are set out in the table below.

Managing Director	
Term of Agreement	Permanent, subject to six months' notice of termination by either party.
Fixed annual remuneration	Fixed annual remuneration includes base salary and superannuation. As at 31 March 2019, FAR was \$1,300,000. Fixed annual remuneration is reviewed periodically against market by the Remuneration Committee and the Board, with no guarantee of annual increase.
Short-term incentive (at risk)	Annual short-term incentive of 75 per cent of FAR for on-target performance. STI awards are delivered as two-thirds in cash payment and one-third in deferred rights, with a two-year deferral period. Unless otherwise determined by the Board, STI awards are forfeited if terminated for cause or resignation prior to vesting date.
Long-term incentive (at risk)	Long-term incentive of 120 per cent of FAR for maximum performance. Treatment of LTI awards are stated in the LTI plan rules and the specific terms of grant. In general, unless otherwise determined by the Board, LTI awards lapse upon resignation or termination for cause and for termination without cause will remain on foot on a pro-rata basis, to be tested against the relevant performance conditions at the vesting date. Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years. Clawback provisions apply in plan rules.
Termination benefits	Termination benefits calculated at three weeks' pay for every year of service paid at the Managing Director's FAR rate and capped at six months.

The major provisions contained in the services agreements of the other Executive KMP are substantially the same as those that apply to the Managing Director other than the short-term and long-term incentive opportunities set out on the previous page.

Directors' report – Remuneration report (audited)**3 FY2019 Performance and Remuneration Summary**

Executive remuneration outcomes, and STI and LTI awards correlate to business performance and shareholder outcomes for the period FY2015 – FY2019.

For FY2019, performance was sound. Targets were set taking into account the impact of decreases in revenue associated with the underlying regulatory determination price paths, lower incentive revenues and metering hand-backs. The Board awarded STI vesting outcomes of 105 per cent to the MD, reflecting a combination of financial and strategic outcomes. Performance over the FY2017 to FY2019 period gave rise to 54.3 per cent LTI vesting.

The table and charts below show key financial performance outcomes for the current and past reporting periods for the Managing Director's STI and LTI pay outcomes.

Financial performance	FY15 ¹	FY16 ²	FY17 ³	FY18	FY19
NPAT (\$m) ^{1, 2}	23	489	255	291	254
EBITDA (\$m)	1,047	1,143	1,073	1,143	1,134
Return on Equity (%)	1.0	14.0	7.0	8.0	7.3
Total Shareholder Return (TSR) Percentile Ranking - relative performance	62.3	71.4	68.6	64.2	63.9
Earnings Per Share (EPS) (%) 3 year compound annual growth rate (CAGR)	(58.1)	17.8	3.4	130.4	(21.0)
Return on Invested Capital (ROIC) (%) 3 year average	4.58	4.82	4.89	5.67	4.70
Share price at 31 March (\$)	1.460	1.490	1.685	1.675	1.755
Dividends (cents per share) ³	8.36	8.53	9.80	9.25	9.72
STI % ⁴	56.2	127.1	107.6	N/A	N/A
STI vested as % of target – MD	45.0	115.7	96.8	110.0	105.0
LTI vested as % of target – MD	37.5	104.9	70.6	85.9	54.3
LTI vested as % of target – other Executive KMP	33.5	120.3	76.1	85.9	54.3

1. FY2015 net profit after tax includes the recognition of \$142.6 million in income tax expense for the settlement with the Australian Taxation Office (ATO) in relation to the intra-group financing audit, the recognition of \$84.1 million net exposure in relation to the intellectual property tax dispute with the ATO and the recognition of a provision for Advanced Metering Infrastructure (AMI) customer rebates of \$22.8 million (after tax).
2. FY2016 net profit after tax includes one-off tax benefits of \$163.1 million associated with our corporate restructure (\$135.0 million) and settlement of the IP dispute with the ATO (\$28.1 million).
3. FY2017 dividends consist of 8.80 cents per share ordinary dividend plus 1.0 cents per share special dividend.
4. Corporate STI Scorecard outcome from FY2015 to FY2017, individual scorecard from FY2018.

Chart 1: MD Overall STI Outcome % of Target to EBITDA and NPAT

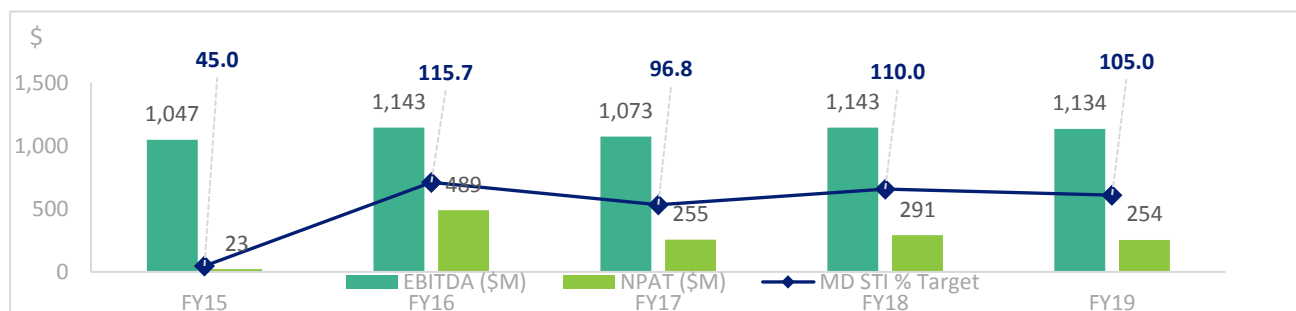
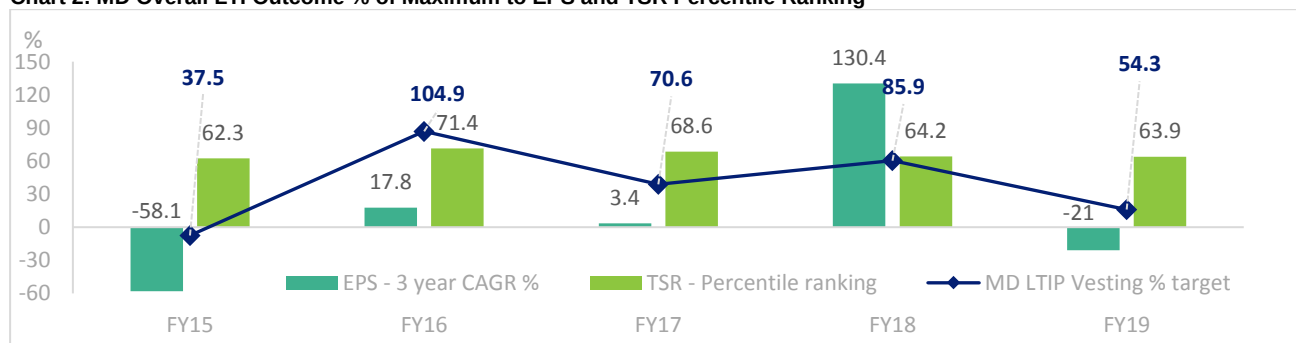


Chart 2: MD Overall LTI Outcome % of Maximum to EPS and TSR Percentile Ranking



Directors' report – Remuneration report (audited)**3 FY2019 Performance and Remuneration Summary (continued)****Key remuneration outcomes for FY2019:**

Executive Fixed Remuneration	No changes were made to the Managing Director's FAR during FY2019. No changes were made for other KMP, with the exception of Mr Tieppo, who received a 5.8 per cent increase in FAR.
FY2019 Short Term Incentive Plan outcomes	FY2019 was the second year of our simplified STI plan based on a single scorecard, including a 60 per cent weighting on financial performance. The MD's STI outcome was 105.0 per cent of target (maximum vesting opportunity was 145.0 per cent) which compares to 110 per cent of target for FY2018. Other Executive KMP STI scorecard outcomes varied between 93.0 per cent and 109.0 per cent of target which compares to between 105.0 per cent and 110.0 per cent for FY2018. Further details of the FY2019 STI plan and outcomes can be found in section 4.
Vesting of 2016 Long term Incentive Plan awards (FY2017- FY2019 performance period)	The LTI awards granted in 2016, (applicable for the FY2017 – FY2019 performance period), were tested against performance criteria, resulting in 54.3 per cent vesting. The LTI vesting outcome reflects: • relative total shareholder return ranking (63.9 percentile), • return on invested capital of 4.7 per cent • compound annual earnings per share growth (EPS CAGR) of negative 21 per cent. The negative EPS growth from FY2016 to FY2019 was below the EPS CAGR threshold due to the high FY2016 earnings per share arising from a tax consolidation adjustment, which is the baseline for calculating earnings growth over the FY2017 – FY2019 period. Further details of the LTI plan and LTI vesting can be found in section 4.
Managing Director 2018 Long Term Incentive Plan grant (FY2019- FY2021)	As approved by shareholders at the July 2018 AGM, the Managing Director's 2018 LTI grant was made based on a maximum vesting opportunity of 120 per cent of fixed remuneration. The 2018 LTI grant will be tested at the conclusion of the three-year performance period being FY2019 - FY2021.
2019 Long Term Incentive plan grant (FY2020- FY2022)	The 2019 LTI grant will adopt the more stringent criteria implemented in the 2018 grant. Shareholders will have the opportunity to vote on the proposed 2019 LTI grant for the Managing Director at the Annual General Meeting to be held on 18 July 2019.
Non-executive director fees	Total remuneration paid to non-executives directors for FY2019 was \$1.79 million, which represents 79.7 per cent of the fee cap of \$2.25 million. No increases were made to base non-executive director fees and Committee fees during FY2019.

Directors' report – Remuneration report (audited)**3 FY2019 Performance and Remuneration Summary (continued)****FY2019 actual remuneration paid to Executive KMP (unaudited)**

The table below sets out the actual remuneration paid to current Executive KMP over the past two reporting years. This includes annual fixed remuneration, STI cash paid, the value of deferred STI rights in respect to the Managing Director, and the value of the 2016 LTI awards that vested in FY2019.

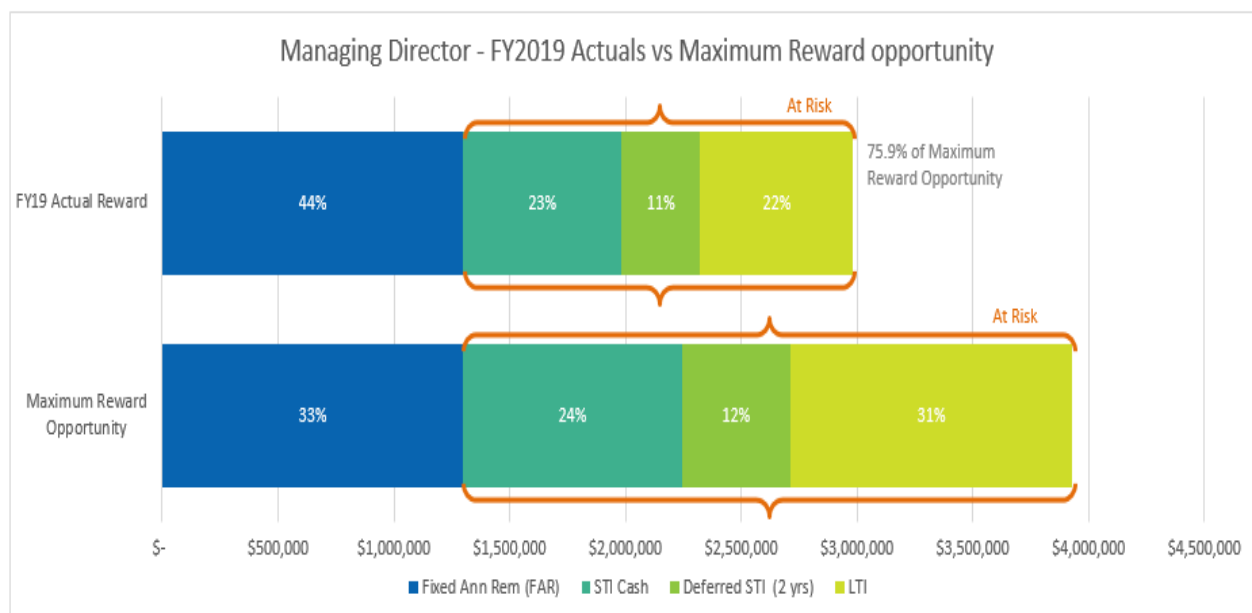
The Managing Director did not receive any fixed remuneration increases during FY2019. Mr Tieppo received a 5.8 per cent increase effective 1 April 2018. No other KMP received any fixed remuneration increase during FY2019. Note that the following table is non-IFRS information and is unaudited.

Executive KMP	FY	Fixed Annual Remuneration	Short Term Incentive Paid	STI Deferred (2 years)	LTI Vested ¹	Total
Nino Ficca	2019	1,300,000	682,500	341,250	660,009	2,983,759
	2018	1,300,000	715,000	357,500	1,064,331	3,436,831
Chad Hymas	2019	450,000	196,200		100,422	746,622
	2018	450,000	198,000		161,941	809,941
Adam Newman	2019	692,835	257,735		205,749	1,156,319
	2018	692,835	290,991		332,603	1,316,429
Alistair Parker	2019	500,000	190,000		124,423	814,423
	2018	500,000	210,000		200,644	910,644
Mario Tieppo	2019	450,000	178,200		126,317	754,517
	2018	425,360	187,158		203,699	816,217

1. LTI vesting is calculated based on the number of 2016 performance rights vested multiplied by the share price at 31 March 2019 being \$1.755.

Statutory accounting disclosures of remuneration which are shown in Section 7 of this report differ from the actual pay received due to the accounting treatment of leave provisions and unvested LTI awards.

The following table illustrates the Managing Director's actual STI, LTI and total remuneration outcomes for FY2019 compared to threshold and maximum remuneration opportunity.



Directors' report – Remuneration report (audited)**4 FY2019 Executive KMP Incentive Plans Detailed Outcomes****FY2019 Short-Term Incentive Plan**

The FY2019 STI Plan continues the FY2018 initiative to use a single additive scorecard covering financial and non-financial measures.

Key features of the FY2019 STI Plan are set out as follows:

Board discretion	The Board has discretion over all elements of the STI plan including (but not limited to) the setting of KPI performance targets and ranges, selection of KPIs weightings, and any assessed performance outcomes.			
STI Opportunity	STI opportunity is expressed as a percentage of the participant's FAR at target performance. Managing Director – 75 per cent of FAR at target, 37.5 per cent of FAR at threshold performance and 112.5 per cent of FAR at maximum performance. (i.e. a performance range of minus/ plus 50 per cent). Other Executive KMP – 40 per cent of FAR at target, 20 per cent of FAR at threshold performance and 60 per cent of FAR at maximum performance.			
STI Performance gateway	STI payments are subject to a number of gateways: - cash flow from operational performance provides the company with the ability to pay shareholder dividends in accordance with AusNet Services' dividend guidance targets for the relevant year. - in the event of a fatality, the Board retains complete discretion to adjust any STI award for the Managing Director, other Executive KMP or other employees. - for FY2019 the Board added a Capability and Culture performance gate to access the strategic KPI opportunity (35 per cent) of the Managing Director's and reporting Executives' FY2019 scorecards. The Board considers the link between delivering on business performance and driving the right culture, behaviours and capability is critical to the delivery of sustainable business performance.			
STI Performance measures and weightings	Financial		Non-financial	
	EBITDA	Return on equity	HSEQ Index	KPIs aligned to strategic priorities
	40%	20%	5%	35%
The KPIs are designed to reward achievement of both financial targets and non-financial objectives that drive the execution of AusNet Services' strategy and shareholder return. KPIs aligned to strategic priorities are set by the Board for the Managing Director. For FY2019 the Board set the Managing Director's strategic KPIs to be aligned to our on-going Regulated Energy Services business cost efficiency program, growth in our unregulated asset base across our Mondo Business and Transmission network strategic planning. For the executive team, KPIs reflecting a cascade of strategic priorities as appropriate for each role were applied.				
STI Delivery mechanism	Two thirds of the Managing Director's STI award is paid in cash with one third deferred into shares held over a two-year period. At the conclusion of the two-year deferral period, a dividend equivalent cash payment is made equal to the dividends the share rights would have ordinarily received over the two-year deferral period. STI is paid in cash for all other executives.			

Directors' report – Remuneration report (audited)

4 FY2019 Executive KMP Incentive Plans Detailed Outcomes (continued)

FY2019 Managing Director STI scorecard performance outcomes

Design aspect	Managing Director FY2019 STI Scorecard				
Eligibility & performance gates	The Board assessed the financial and safety performance gateways, which are required to be achieved to be eligible for a STI payment. In addition, the Board assessed the Capability and Culture performance gate associated with the 35 per cent strategic KPI component of the Managing Director and Executive KMP scorecards. The Board determined that all FY2019 performance hurdles required to be met against these gateways were achieved.				
Assessment of KPIs	The Board reviewed the Managing Director's FY2019 STI scorecard performance and assessed an outcome of 105.0 per cent of target performance or 72.4 per cent of maximum STI opportunity.				
	Measure	Strategy, Performance and Reward alignment	Weighting	FY2019 Vesting Outcome	Outcome Commentary
Financial	EBITDA	EBITDA is considered the most relevant financial performance measure in the utilities industry as it represents a proxy for cash generation, which influences dividend growth and is aligned with shareholder outcomes.	40%		The company's EBITDA performance was ahead of target as a result of outperformance on operating costs and excluded/unregulated revenues. The EBITDA target factored in known regulatory revenue decreases seen in the year on year performance.
	Return on Equity	Return on equity is an important measure in demonstrating relative financial performance and aligns with shareholder outcomes.	20%		Above target return on equity performance was consistent with the EBITDA outperformance.
Safety	HSEQ Index	This index blends key lead and lag indicators focussed on the ongoing improvement of our safety performance and culture.	5%		Our HSEQ Index score of 110, driven primarily as a result of year on year improvements across our key safety indicators.
Strategic	Unregulated growth	Our Strategy 2021 Target of \$1bn of unregulated infrastructure asset base resulted in a target being set for growth in the current year that would continue the trajectory towards exceeding the 2021 target.	10%		In FY2019, AusNet Services achieved outcomes related to signing the Stockyard Hill Wind Farm connection assets contracts and commencing preliminary works for Dundonnell Wind Farm. In addition, practical completion has been achieved on the Salt Creek, Bulgana and Crowlands projects.
	Regulated Opex efficiencies	Our Strategy 2021 Target of top quartile benchmarking performance in all three regulated networks resulted in a target being set based on a regulated operating expenditure level that would take costs out year-on-year to trend to the achievement of the 2021 target.	15%		In FY2019, significant progress was achieved towards reducing AusNet Services overall operating expenditure and a range of programs and initiatives were executed throughout the year contributing positively to the financial performance of the business. This KPI carried a target performance vesting requirement which was not achieved.
	Transmission Network Planning	AusNet Services is supporting the energy reform agenda, including advancing a nationally consistent Transmission planning framework.	10%		Progress has been made during the year to enable longer term improvements in coordinated Transmission planning.
Notes	While the STI design allows for a total maximum opportunity of 150 per cent of target, for FY2019 the Managing Director's maximum FY2019 STI opportunity was limited to 145 per cent to reflect the Transmission Network Planning KPI having no outperformance opportunity.				

Directors' report – Remuneration report (audited)**4 FY2019 Executive KMP Incentive Plans Detailed Outcomes (continued)**

Delivery Mechanism	Two thirds of the Managing Director's STI award is paid in cash with one third deferred into share rights held over a two-year period. The number of share rights is determined by dividing one third of the Managing Directors FY2019 STI award by the allocation price. The allocation price is determined by calculating the volume weighted average price of AusNet Services Ltd (AST) share price over a five-day trading period commencing on the date AusNet Services releases its FY2019 Financial Results. The Board intends to seek shareholder approval for the granting of the Managing Directors FY2019 Deferred STI Rights.
Deferred Share Rights	The Deferred STI share rights are not subject to any additional performance testing. The share rights are subject to forfeiture in the event of resignation or termination for cause. Shares are held in Trust on behalf of the Managing Director throughout the two-year deferral period and will be transferred to the Managing Director at the conclusion of the two-year deferral period. Whilst the Managing Director does not have a right to receive dividends during the two-year deferral period, a cash based Dividend Equivalent Payment will be made at the conclusion of the deferral period. This payment will be based on the equivalent value of dividends that would have been ordinarily received during the deferral period if the shares were held directly and is not adjusted for franking credits.
Claw back	The Board may determine that any awards be clawed back in the event an unfair benefit has or will be obtained as a result of fraud, dishonesty, gross misconduct or breach of obligations which would not otherwise be satisfied.
Executive KMP STI Outcomes	Executive KMP STI scorecards included the same financial and safety weightings as for the Managing Director with individual strategic KPIs cascaded for each role. The range of FY2019 STI outcome for other Executive KMP was between 93.0 per cent of target and 109.0 per cent of target STI opportunity, or 62.0 per cent to 72.7 per cent of maximum STI opportunity. STI is paid in cash for all other executives.

Directors' report – Remuneration report (audited)**4 FY2019 Executive KMP Incentive Plans Detailed Outcomes (continued)****Long-Term Incentive Plan for FY2019 to FY2021 performance period**

The terms of the 2018 LTI grant for the three-year performance period commencing 1 April 2018 and ending on 31 March 2021 (FY2019 to FY2021) are summarised below.

These grants were made to Executive KMP in May 2018. The Managing Director's grant was made shortly after shareholders voted and elected to approve his grant at the AGM held in July 2018.

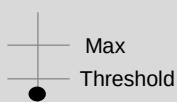
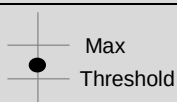
Design aspect	Commentary		
Eligibility	Executive KMP. The Board has discretion to invite additional employees to participate in the LTI plan.		
Opportunity	The LTI award opportunity is based on a percentage of the participant's FAR as at the grant date. The number of performance rights granted is the LTI award opportunity divided by the volume weighted average share price (VWAP) over the five trading day period commencing on 14 May 2018 being the date on which AusNet Services released its FY2018 results. Managing Director – 120 per cent of FAR at maximum performance Other Executive KMP – 50 per cent of FAR at maximum performance		
Performance measures	Total Shareholder Return (TSR)	Earnings Per Share (EPS)	Return on Invested Capital (ROIC)
	The comparator group used for the TSR performance measure is the S&P/ASX 100 index (without exceptions). In assessing whether performance hurdles have been met, independent data is reviewed by the Board indicating relative TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR achieved is given a percentile ranking, compared with the comparator group.	EPS is calculated by taking the company's net profit after tax divided by the weighted average number of shares on issue. The EPS growth measure is based on achieving a nominal compound annual growth rate (CAGR) over the three-year performance period.	The ROIC measure is designed to measure how effectively we use funds (borrowed and owned) invested in our operations. ROIC is calculated over a three-year performance period and equals (NPAT + Finance Cost adjusted for Tax) / (Average Equity + Average Debt). Average debt includes finance lease liabilities arising from the implementation of AASB 16 Leases from 1 April 2019. Finance cost includes associated finance lease income and expense.
Weighting, targets and vesting scales	Weighting 50%	Weighting 25%	Weighting 25%
	Threshold Performance 50th percentile - 35 per cent vesting	Threshold Performance 2.5 per cent CAGR - 0 per cent vesting	Threshold Performance 4.70 per cent - 0 per cent vesting
	Maximum performance 75th percentile - 100 per cent vesting	Maximum performance 7.5 per cent CAGR - 100 per cent vesting	Maximum performance 4.90 per cent - 100 per cent vesting
	The vesting of each of the above KPIs will occur on a linear basis between the threshold and maximum ranges.		
Delivery mechanism	The LTI award is granted as performance rights, subject to performance against the above measures and continued employment. The Board retains the right to vary at its discretion the number of performance rights that vest.		
Unvested rights and dividends	No dividends or dividend equivalent payments accrue to unvested rights during the performance period.		
Change of Control	If a Change of Control Event occurs, or the Board determines such event is likely to occur, the Board may in its absolute discretion determine the treatment of any or all of the Participant's unvested Performance Rights.		
Clawback arrangements	The Board may determine that any awards be clawed back in the event performance measures have been satisfied by the participant as a result of fraud, dishonesty, or breach of obligations which would not otherwise be satisfied.		

Directors' report – Remuneration report (audited)**4 FY2019 Executive KMP Incentive Plans Detailed Outcomes (continued)****2016 LTI grant (FY2017 to FY2019 performance period) outcomes**

The Board assessed performance over the FY2017 to FY2019 performance period against the three measures (relative TSR, EPS growth and ROIC) set out in the 2016 LTI plan. For participants to qualify for an award under the ROIC measure, a safety performance gateway of zero fatalities for our employees in the 12-month period prior to vesting must be achieved.

The parameters of the 2016 LTI Award are summarised below:

Opportunity	The LTI award is calculated as a percentage of the participant's FAR as at the grant date. The number of performance rights issued is the percentage of FAR divided by the volume weighted average price (VWAP) over the five trading day period commencing on the date AusNet Services released its FY2016 results. The 2016 LTI grant price was therefore \$1.6045. Managing Director – 100 per cent of FAR (at grant date) at maximum performance Other Executive KMP – 50 per cent of FAR (at grant date) at maximum performance		
Performance measures	Total Shareholder Return (TSR)	Earnings Per Share (EPS)	Return on Invested Capital (ROIC)
Weighting, targets and vesting scales	Weighting 50%	Weighting 25%	Weighting 25%
	Threshold Performance 50th percentile - 35 per cent vesting	Threshold Performance 2.5 per cent CAGR – 0 per cent vesting	Threshold Performance 4.60 per cent - 50 per cent vesting
	Maximum performance 75th percentile - 100 per cent vesting	Maximum performance 5.0 per cent CAGR - 100 per cent vesting	Maximum performance 4.80 per cent - 100 per cent vesting
	The vesting outcome for each of the above KPIs occurs on a linear basis between the threshold and maximum performance targets.		

2016 LTIP Grant - Performance Outcomes					
Assessed outcome	The Board assessed the performance of the LTI awards granted in 2016, applicable for the FY2017 – FY2019 performance period. The performance criteria tested were relative total shareholder return, earnings per share growth and return on invested capital.				
Assessment of KPIs	The Board assessed the 2016 LTI grant KPI outcome and resulted in an overall vesting of 54.3 per cent of maximum (100 per cent) opportunity as set out below.				
Performance Measures	Measure	Strategy, Performance and Reward alignment	Weighting	FY2019 Outcome	Performance Outcome
	TSR	Total Shareholder Return (TSR) measures returns generated from the investments made against performance of comparator group.	50%		63.9 percentile ranking
	EPS (CAGR)	EPS provides tangible measure of shareholder value creation.	25%		(21.0) per cent
	ROIC	Return on invested capital measures returns generated from investments in operations.	25%		4.70 per cent
Notes	Above table sets out the overall 2016 LTI grant performance and vesting outcomes. These grants were made to Executive KMP in May 2016. The Managing Director's grant was made shortly after shareholders voted and elected to approve his grant at our AGM held in July 2016.				
Delivery Mechanism	The shares vested to the Managing Director and other KMP under the 2016 LTI plan are proposed to be allocated to each executive on 20 May 2019, at which time a personal income tax obligation arises. Each recipient of vested share rights is subject to the AusNet Services Guidelines for Dealing in Securities and applicable laws, to sell, transfer or otherwise dispose of their securities.				

Directors' report – Remuneration report (audited)**5 Non-executive Directors**

Non-executive Director (NED) remuneration is designed to ensure that Directors maintain objectivity and independence and that the Board attracts Directors with the necessary skills, expertise and capability.

Our approach to Non-executive Director remuneration is as follows:

NED fee element	Commentary
Fees	Non-executive Directors may receive Directors' fees and Committee fees. The Board's policy is that Director and Committee fees are set with regard to independent performance advice and fees paid by comparable companies, and that fees are not linked to the performance of AusNet Services. In accordance with the constitution of AusNet Services Ltd, Non-executive Directors may also be paid additional fees for special duties or exertions.
Total fee pool for remuneration of Non-executive Directors	The total fees paid to Non-executive Directors (including any additional fees for special duties or exertions) in any financial year must not exceed in aggregate the amount approved by shareholders in a general meeting. The total remuneration pool for Non-executive Directors is currently \$2,250,000 per year, as approved by shareholders at the Annual General Meeting held on 21 July 2016.
Equity based compensation	Non-executive Directors are not provided with any form of equity-based compensation.
Business related expenses	Non-executive Directors are entitled to be reimbursed for all business-related expenses, including travel on company business, as may be incurred in the discharge of their duties.
Retirement benefits	Non-executive Directors are not provided with any form of retirement benefit. Fees paid are inclusive of superannuation contributions made on behalf of the Non-executive Directors in accordance with our statutory superannuation obligations.
Review of fee levels and approach to Non-executive Director fees	The Remuneration Committee regularly reviews the fees payable to Non-executive Directors, considering market practices, governance developments and the time commitment and responsibilities involved in carrying out their duties. In general, the Board's policy is that fees should be reviewed at least every three years, as this frequency helps to ensure that the fee levels remain aligned with the market. Board Member and Committee fees were adjusted in July 2015. Non-executive Director fees were reviewed in FY2018 and as a result, the Board Chairman's fee was adjusted effective 1 Oct 2017. No adjustments to Non-executive Director Fees were made in FY2019.

The annual fees payable to Non-executive Directors of AusNet Services and approved by the Board (inclusive of statutory superannuation) for the financial year ended 31 March 2019 are set out in the table below. It is not possible to allocate fees to individual entities within the AusNet Services Group.

Role ¹	Chair fee	Member fee
Board	\$430,000	\$165,000
Audit and Risk Management Committee	\$40,000	\$20,000
Remuneration Committee	\$35,000	\$17,500
Nomination Committee	included in base fee	included in base fee

1. In addition to the fees noted above, Non-executive Directors may also be paid fees for special duties or exertions.

Directors' report – Remuneration report (audited)

6 Remuneration Governance

AusNet Services' Board recognises that remuneration arrangements are important enablers and drivers of business performance and effective remuneration governance therefore requires diligence, access to data and information, external input and judgement.

Our approach is summarised as follows:

Clear roles assist efficient assessment and decision-making: The Board and Committee Charters establish clear roles for the Board and Remuneration Committee in relation to MD remuneration and the overall remuneration framework. The Remuneration Committee Charter was last reviewed by the Board in March 2016 and is periodically reviewed.

	Board	
Stakeholders	The Board oversees AusNet Services' remuneration arrangements. It is accountable for the remuneration of executives and of Non-executive Directors, and the policies and processes governing remuneration. The Board's Remuneration Principles serve as a reference point for decisions on remuneration matters. These principles have been in place since 1 January 2016 and will be reviewed in FY2020 to ensure relevance to the internal and external environment of AusNet Services. The Board assesses the performance of the Managing Director and oversees executive KMP performance and approves all related reward outcomes. The Board's stakeholder engagement plan includes regular remuneration related interactions and formal meetings, which inform the Board's thinking and decisions on remuneration. In addition, the Board seeks input from external advisors to challenge its thinking and to support informed and independent decision-making by the Board.	
	Remuneration Committee	
	The Remuneration Committee reviews and make recommendations to the Board on matters of remuneration frameworks and structure, non-executive remuneration levels and executive remuneration, including fixed and variable pay elements. Directors regularly receive and review current remuneration market practices and emerging trends and assess their relevance to AusNet Services. The Committee undertakes rigorous historical analysis and forecasting when considering short and long-term performance criteria. In addition, the Committee monitors internal and external trends on pay compression, diversity and gender pay relativities.	
	External Advisors	Management
	The Committee has appointed Ernst and Young (EY) as its Remuneration Advisor and engages other external advisors as required. No remuneration recommendations, as defined by the <i>Corporations Act</i> 2001, were provided to the Remuneration Committee or the Board by EY during the reporting period. Advice provided to the Remuneration Committee by EY during the reporting period focussed on overall executive remuneration market practices and frameworks in addition to executive remuneration benchmarking.	Management provides information and insights on contemporary remuneration practices and obtains remuneration information from external advisors to assist the Remuneration Committee.

Board discretion: The Board retains absolute discretion to adjust Short and Long Term Incentive components and outcomes where appropriate. In general, the Board's policy is not to adjust statutory performance outcomes for significant items when assessing incentive outcomes.

Equity Plans: All executives receiving LTI awards are subject to AusNet Services' Guidelines for Dealing in Securities and applicable laws regarding the sale, transfer or disposal of their securities. In order to satisfy share-based incentive awards, shares are purchased on market and held in AusNet Services' Employee Share Plan Trust. AusNet Services practice has been to seek shareholder approval for grants of equity to the Managing Director at the AGM.

Directors' report – Remuneration report (audited)**7 Statutory Remuneration Disclosures****Executive KMP Statutory Remuneration**

Remuneration for Executive KMP, in accordance with statutory requirements for remuneration disclosures are as follows:

		Short-term		Other short-term benefits 2,5		Post-employment	Equity based payments 3	Other long-term benefits 4,5		Total	
	FY	Cash salary and fees 5	STI 1	Annual Leave taken	Annual Leave Balance Net Change	Car Park	Super-annuation	Long Service Leave taken	Long Service Leave Balance Net Change		
Nino Ficca	2019	1,018,912	1,023,750	163,754	(79,696)	10,769	112,353	596,806	-	32,375	2,879,023
	2018	1,055,302	1,072,500	127,364	(40,066)	10,541	119,028	712,997	-	32,302	3,089,968
Chad Hymas	2019	397,318	196,200	26,054	6,896	10,769	25,000	93,752	-	11,207	767,196
	2018	402,203	198,000	21,169	12,026	10,541	24,976	98,362	-	11,184	778,461
Adam Newman	2019	619,219	257,735	46,058	5,310	10,769	25,000	153,320	-	17,255	1,134,666
	2018	614,101	290,991	46,058	5,309	10,541	24,976	184,766	-	17,321	1,194,063
Alistair Parker	2019	410,939	190,000	16,379	21,072	10,769	25,000	100,713	49,138	(39,272)	784,738
	2018	447,691	210,000	26,290	18,240	10,541	27,429	103,188	-	12,489	855,868
Mario Tieppo	2019	397,318	178,200	26,054	8,136	10,769	25,000	104,454	-	13,852	763,783
	2018	335,934	187,158	62,892	(34,288)	10,541	24,976	97,593	-	10,634	695,440
Total KMP	2019	2,843,706	1,845,885	278,299	(38,282)	53,845	212,353	1,049,045	49,138	35,417	6,329,406
	2018	2,855,231	1,958,649	283,773	(38,779)	52,705	221,385	1,196,906	-	83,930	6,613,800

1. FY2019 STI includes amounts in respect of performance for the year ended 31 March 2019. These amounts have been approved and will be payable in June 2019.

2. Other short-term benefits include car parking benefits and the accrual of annual leave entitlements. The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.

3. As the performance period over which the LTI awards vest is three years, the amount included in Equity-based payments is one-third of the amount estimated to vest at the end of the performance period for each outstanding award. This estimated amount is based on certain assumptions regarding the achievement of performance targets, which are reviewed and adjusted annually. Any adjustments to previously recognised amounts, both positive and negative, are included in the current year. The actual amounts vested under these awards will not be known until the end of the performance period.

4. Other long-term benefits include the accrual of long service leave entitlements.

5. The above table represents the accounting value of KMP remuneration, calculated in accordance with accounting standards. As a result, annual leave and long service leave entitlements are recognised as remuneration when they accrue rather than when they are taken. This has the impact of reducing the cash salary and fees remuneration disclosed in the table above when these leave entitlements are ultimately taken by the KMP. In addition, any changes to the value of leave entitlements (for example, because of changes in FAR or long service leave entitlements not vesting) are recognised as remuneration, either positive or negative, in the year that the change occurs. These accounting adjustments to remuneration values are reflected in the Cash salary and fees, Other short-term benefits and Other long-term benefits disclosed in the table.

Directors' report – Remuneration report (audited)**7 Statutory Remuneration Disclosures (continued)****Short-Term Incentive**

The percentage of the available STI that was paid, or that vested, and percentage of target that was lapsed in the financial years ended 31 March 2018 and 31 March 2019, are set out below.

	FY2019 STI					FY2018 STI				
	STI payable (\$) ¹	STI deferred (\$) ²	Total STI payable (\$)	Percentage of target payable/ (lapsed)		STI paid (\$)	STI deferred (\$) ³	Total STI paid (\$)	Percentage of target paid/ (lapsed)	
Nino Ficca	682,500	341,250	1,023,750	105.0	-	715,000	357,500	1,072,500	110.0	-
Chad Hymas	196,200	-	196,200	109.0	-	198,000	-	198,000	110.0	-
Adam Newman	257,735	-	257,735	93.0	7	290,991	-	290,991	105.0	-
Alistair Parker	190,000	-	190,000	95.0	5	210,000	-	210,000	105.0	-
Mario Tieppo	178,200	-	178,200	99.0	1	187,158	-	187,158	110.0	-

1. Incentive payments for the performance year ended 31 March 2019 have been approved and will be payable in June 2019.
2. One third of the Managing Director's FY2019 award will be deferred into share rights to be held for a period of two years. STI is paid in cash for all other executives.
3. Under the terms of the Deferral Plan, the deferred STI component of Mr Ficca's STI was allocated by way of deferred rights to be held for a period of two years. The number of deferred rights issued was 212,532, being \$357,500 divided by share price of \$1.6821. The share price was calculated based on the volume weighted average price (VWAP) over the five trading day period commencing on the date AusNet Services released its FY2018 results.

Long-Term Incentive*FY2019 LTI vesting outcomes*

The performance rights vesting in FY2019 were granted to the Managing Director and other Executive KMP under the terms and conditions of the 2016 grant. The performance outcome, outlined in section 4 of this report for the 2016 grant, resulted in 54.3 per cent of performance rights vesting as shown in the table below.

	2016 LTI Performance Rights		
	Granted	Vested	Lapsed
Nino Ficca	692,585	376,074	316,511
Chad Hymas	105,379	57,221	48,158
Adam Newman	215,904	117,236	98,668
Alistair Parker	130,564	70,896	59,668
Mario Tieppo	132,552	71,976	60,576

Directors' report – Remuneration report (audited)**7 Statutory Remuneration Disclosures (continued)***LTI performance rights allocation*

The following table shows the number and value of grants subject to current vesting and future performance testing. The performance periods for the grants made in 2017 and 2018 are still in progress and, as such vesting has not been assessed against the performance conditions at the date of this report.

<i>KMP</i>	Maximum total value of grant (\$) ^{1,2}	Performance rights granted	Maximum total value of grant (\$) ²	Performance rights granted	Maximum total value of grant (\$) ²	Performance rights granted
Grant	2016		2017		2018	
Test / Vesting date	31 Mar 2019		31 Mar 2020		31 Mar 2021	
Nino Ficca	706,437	692,585	1,075,617	888,940	978,420	927,412
Chad Hymas	107,487	105,379	155,137	128,212	141,118	133,761
Adam Newman	220,222	215,904	238,854	197,400	217,270	205,943
Alistair Parker	133,175	130,564	172,374	142,458	156,798	148,623
Mario Tieppo	135,203	132,552	146,642	121,192	141,118	133,761
Total	1,302,524	1,276,984	1,788,624	1,478,202	1,634,724	1,549,500

1. These grants have vested. In determining LTIs for the 2016 grant, the Board has not exercised any discretion in relation to the performance measures and outcomes payable under the LTI plan.
2. Amounts represent the value of the performance rights on grant date. Refer to Note F.3 in the financial statements for further details.

Directors' report – Remuneration report (audited)**7 Statutory Remuneration Disclosures (continued)****Remuneration Paid to Non-executive Directors**

The total remuneration paid to Non-executive Directors for FY2019 was \$1,793,811, which is 79.7 per cent of the total available fee pool of \$2,250,000 which was approved by shareholders at the 2016 AGM.

Non-executive Directors	FY	Short-term		Post-employment	Total ¹
		Cash salary and fees	Other short-term benefits ¹	Super-annuation ²	
Ralph Craven	2019	168,950	-	16,050	185,000
	2018	168,950	-	16,050	185,000
Sally Farrier	2019	200,913	-	19,087	220,000
	2018	195,343	-	18,558	213,901
Ho Tian Yee ⁴	2019	26,308	-	2,499	28,807
	2018	166,667	-	15,833	182,500
Li Lequan ⁷	2019	83,333	-	7,917	91,250
	2018	390,060	-	19,940	410,000
Peter Mason	2019	409,589	-	20,411	430,000
	2018	390,060	-	19,940	410,000
Tina McMeckan ³	2018	61,799	-	5,871	67,670
Robert Milliner	2019	184,931	-	17,569	202,500
	2018	184,931	-	17,569	202,500
Nora Scheinkestel	2019	187,215	-	17,785	205,000
	2018	181,645	-	17,256	198,901
Sun Jianxing ⁶	2019	83,952	-	7,975	91,927
	2018	166,754	-	15,842	182,596
Tan Chee Meng	2019	168,950	-	16,050	185,000
	2018	168,950	-	16,050	185,000
Alan Chan Heng Loon ⁵	2019	140,938	-	13,389	154,327
Total NEDs	2019	1,655,079	-	138,732	1,793,811
	2018	1,685,099	-	142,969	1,828,068

1. The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.
2. Superannuation contributions made on behalf of Non-executive Directors to satisfy our obligations under applicable Superannuation Guarantee legislation. This does not include any salary sacrifice or employee contributions which are included under *Cash salary and fees*.
3. Ms McMeckan retired as a Non-executive Director effective 20 July 2017.
4. Mr Ho Tian Yee ceased as Non-executive Director effective 28 May 2018.
5. Mr Alan Chan Heng Loon commenced as Non-executive Director effective 28 May 2018.
6. Mr Sun Jianxing resigned on 1 October 2018
7. Mr Li Lequan commenced as Non-executive Director effective 1 October 2018

Directors' report – Remuneration report (audited)**7 Statutory Remuneration Disclosures (continued)****Shareholdings of KMP**

All KMP must comply with AusNet Services' Share Trading Policy, which includes a requirement that AusNet Services' shares can only be traded during specified trading windows.

The KMP of AusNet Services have disclosed direct, indirect or beneficial interests in shares as at 31 March 2019 as follows:

Name	Number of shares at 1 April 2018	Granted during the year as compensation	Acquisitions / (disposals)	Number of shares at 31 March 2019
Non-executive Directors²				
Alan Chan Heng Loon ¹	173,947	-	(122,379)	51,568
Ralph Craven	21,000	-	29,000	50,000
Sally Farrier	121,800	-	-	121,800
Li Lequan ¹	-	-	-	-
Peter Mason	100,000	-	-	100,000
Robert Milliner	-	-	-	-
Nora Scheinkestel	43,944	-	30,124	74,068
Tan Chee Meng	50,000	-	100,000	150,000
Executive KMP²				
Nino Ficca	2,263,183	635,420	(635,420)	2,263,183
Chad Hymas	256,733	96,681	(88,631)	264,783
Adam Newman	288,190	198,568	(98,568)	388,190
Alistair Parker	220,464	119,788	6,913	347,165
Mario Tieppo	124,500	121,611	-	246,111

1. Mr Chan's and Mr Li's number of shares at 1 April 2018 represents the number of shares upon becoming KMP (28 May and 1 October 2018 respectively). Mr Ho and Mr Sun had no shares at the time of ceasing to be KMP.
2. Total shareholdings include shares held by KMP and their related parties.

Directors' report

Statutory disclosures

Meetings of Directors

We are committed to achieving a high standard of corporate governance. A key role of the Board is to represent and serve the interests of shareholders by overseeing and appraising the strategies, policies and performance of the company. To effectively do this, the following standing committees were in place during FY2019:

- **Audit and Risk Management Committee (ARMC)** – oversees the adequacy and effectiveness of AusNet Services' audit program, risk management processes and internal control systems, including the monitoring of material business risks (financial and non-financial) and corporate compliance;
- **Nomination Committee** – reviews and makes recommendations to the Board in relation to the appointment of new Directors, review of Board and Board Committee membership and performance, Board and CEO succession planning and the appointment of senior managers; and
- **Remuneration Committee** – reviews and advises the Board on matters relating to the remuneration of Directors, and the remuneration and performance of senior executives.

The number of meetings of the Board of Directors and of each standing Board Committee of AusNet Services Ltd held during the year ended 31 March 2019, and the number of meetings attended by each Director, are set out in the following table:

	Board of AusNet Services Ltd		Audit and Risk Management Committee		Nomination Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B
Peter Mason (Chair)	8	8	4	-	3	3	4	-
Nino Ficca (MD)	8	8	6	-	3	-	6	-
Alan Chan Heng Loon ¹	6	7	-	-	2	2	5	5
Ralph Craven	8	8	6	6	3	3	-	-
Sally Farrier	8	8	6	6	3	3	6	6
Ho Tian Yee ²	1	1	-	-	1	1	1	1
Li Lequan ³	5	5	-	-	1	1	2	3
Robert Milliner	8	8	6	6	3	3	6	6
Nora Scheinkestel	8	8	6	6	3	3	-	-
Sun Jianxing ⁴	3	3	-	-	2	2	3	3
Tan Chee Meng	8	8	5	6	3	3	-	-

1. Mr Chan was appointed as a Director effective 28 May 2018.

2. Mr Ho retired as a Director effective 28 May 2018.

3. Mr Li was appointed as a Director effective 1 October 2018.

4. Mr Sun resigned as a Director effective 1 October 2018.

A = Number of meetings attended. Note that Directors may attend Committee meetings without being a member of that Committee.

B = Number of meetings held during the time the Director held office (in the case of Board meetings) or was a member of the relevant Committee during the year.

Directors' report

Statutory disclosures (continued)

Indemnification and insurance of officers and auditors

The constitution of AusNet Services Ltd provides for the company to indemnify each current and former Director, executive officer (as defined in the constitution), and such other current and former officers of the company or of a related body corporate as the Directors determine (each an 'Officer'), on a full indemnity basis and to the full extent permitted by law against all liabilities (as defined in the constitution) incurred by the Officer as an officer of the company or of a related body corporate.

The constitution also provides for AusNet Services Ltd, to the extent permitted by law, to purchase and maintain insurance, or pay or agree to pay a premium for insurance, for each Officer against any liability (as defined in the constitution) incurred by the Officer as an officer of the company or of a related body corporate.

AusNet Services Ltd may enter into a deed with any Officer to give effect to the rights conferred by the constitution as described above.

The company has executed protection deeds in favour of each of the Directors, the Company Secretary and certain executive general managers on substantially the same terms as provided in the constitution. The deeds also give a right of access to the books of the companies and to Board documents (to the Directors only).

During the financial year, we paid a premium to insure the Directors and Company Secretaries of the Australian-based subsidiaries and the Executive General Managers of AusNet Services. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance policy, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the policy.

No insurance premiums are paid by us in regard to insurance cover provided to the auditor of the Group, KPMG. The auditor is not indemnified and no insurance cover is provided to the auditor.

Non-audit services

We may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the relevant company are important.

Details of the amounts paid or payable to the auditor, KPMG, for audit and non-audit services provided during the year are set out in Note F.1 of the financial report.

In accordance with the advice provided by the Audit and Risk Management Committee, the Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act*. The Directors are satisfied for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act* is set out on page 46.

Environmental regulation and climate change

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

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

Significant changes in the state of affairs

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

Directors' report

Statutory disclosures (continued)

Matters subsequent to the end of the financial year

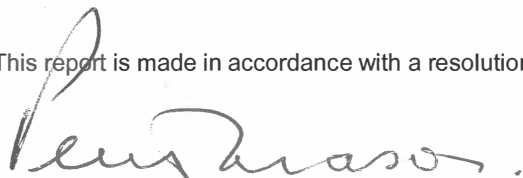
Dividend

Since the end of the financial year, the Directors have approved a final dividend for FY2019 of \$177.5 million (4.86 cents per share) to be paid on 27 June 2019. The final dividend will be 45 per cent franked.

Rounding of amounts

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

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



Peter Mason
Chairman



Nino Ficca
Managing Director

Melbourne
12 May 2019



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of AusNet Services Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of AusNet Services Ltd for the financial year ended 31 March 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

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

Paul J McDonald

Partner

Melbourne

12 May 2019

Consolidated income statement

For the year ended 31 March 2019

		2019	2018
	Notes	\$M	\$M
Revenue	B.1	1,861.5	1,909.8
Use of system and associated charges		(89.9)	(93.6)
Easement and land tax		(142.5)	(142.2)
Employee benefits expenses		(188.0)	(199.0)
External maintenance and contractors' services		(121.9)	(137.1)
Materials		(26.5)	(38.9)
Information technology and communication costs		(51.1)	(54.1)
Operating lease rental expenses		(11.3)	(12.8)
Administrative expenses		(32.5)	(32.4)
Service level payments		(8.5)	(5.5)
Disposal of property, plant and equipment		(21.5)	(15.0)
Other costs		(33.6)	(36.3)
Total expenses excluding depreciation, amortisation, interest and tax		(727.3)	(766.9)
Earnings before interest, tax, depreciation and amortisation		1,134.2	1,142.9
Depreciation and amortisation	C.1, C.2	(456.4)	(442.4)
Profit from operating activities		677.8	700.5
Finance income	D.4	18.3	15.9
Finance costs	D.4	(324.2)	(299.8)
Net finance costs		(305.9)	(283.9)
Profit before income tax		371.9	416.6
Income tax expense	B.5	(118.0)	(125.2)
Profit for the year		253.9	291.4
Basic and diluted earnings per share (cents per share)	B.3	7.01	8.08

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

Consolidated statement of comprehensive income

For the year ended 31 March 2019

		2019	2018
	Notes	\$M	\$M
Profit for the year		253.9	291.4
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	F.2	(5.1)	20.6
Income tax on movement in defined benefit fund	B.5	1.6	(6.1)
		(3.5)	14.5
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		(291.2)	(146.2)
Income tax on movement in hedge reserve	B.5	93.1	46.9
	D.3	(198.1)	(99.3)
Other comprehensive income for the year, net of tax		(201.6)	(84.8)
Total comprehensive income for the year		52.3	206.6

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

Consolidated statement of financial position

As at 31 March 2019

	Notes	2019 \$M	2018 \$M
ASSETS			
Current assets			
Cash and cash equivalents		339.4	658.2
Receivables	B.4	199.9	183.0
Desalination licence receivable	C.3	12.1	12.3
Inventories	B.4	50.5	42.3
Derivative financial instruments	D.3	139.2	0.9
Other assets	B.4	24.3	24.5
Total current assets		765.4	921.2
Non-current assets			
Inventories	B.4	18.3	18.9
Property, plant and equipment	C.1	10,789.9	10,291.8
Intangible assets	C.2	542.3	550.1
Desalination licence receivable	C.3	172.0	180.8
Derivative financial instruments	D.3	473.0	501.6
Other assets	B.4	54.9	52.9
Total non-current assets		12,050.4	11,596.1
Total assets		12,815.8	12,517.3
LIABILITIES			
Current liabilities			
Payables and other liabilities	B.4	292.1	280.4
Provisions	B.4	98.0	93.3
Borrowings	D.2	979.7	465.4
Derivative financial instruments	D.3	2.7	77.8
Current tax payable		31.9	3.6
Total current liabilities		1,404.4	920.5
Non-current liabilities			
Deferred revenue	B.4	199.3	87.1
Provisions	B.4	58.7	49.6
Borrowings	D.2	6,966.7	7,099.7
Derivative financial instruments	D.3	347.2	192.9
Deferred tax liabilities	B.5	550.4	611.5
Total non-current liabilities		8,122.3	8,040.8
Total liabilities		9,526.7	8,961.3
Net assets		3,289.1	3,556.0
EQUITY			
Contributed equity	D.5	5,222.9	5,162.5
Reserves		(1,761.6)	(1,560.3)
Retained profits		922.9	1,048.9
Other equity		(1,095.1)	(1,095.1)
Total equity		3,289.1	3,556.0

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

Consolidated statement of changes in equity

For the year ended 31 March 2019

		Contributed equity	Restructure reserve (i)	Hedge reserve (ii)	Asset revaluation reserve (iii)	Share based payment reserve (iv)	Other equity component (v)	Retained profits	Total equity
	Notes	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
31 March 2019									
Balance as at 1 April 2018		5,162.5	(1,501.9)	(117.1)	51.4	7.3	(1,095.1)	1,048.9	3,556.0
Impact of change in accounting policy	A	-	-	-	-	-	-	(33.9)	(33.9)
Adjusted balance as at 1 April 2018		5,162.5	(1,501.9)	(117.1)	51.4	7.3	(1,095.1)	1,015.0	3,522.1
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	253.9	253.9
Other comprehensive income		-	-	(198.1)	-	-	-	(3.5)	(201.6)
Total comprehensive income for the year		-	-	(198.1)	-	-	-	250.4	52.3
Transactions with owners, recorded directly in equity									
Dividends paid	D.6	-	-	-	-	-	-	(342.5)	(342.5)
Dividend Reinvestment Plan (net of transaction costs)	D.6	59.3	-	-	-	-	-	-	59.3
Share based payment reserve	F.3	4.2	-	-	-	(3.2)	-	-	1.0
Shares purchased as part of employee share plans	D.5	(3.1)	-	-	-	-	-	-	(3.1)
Total transactions with owners		60.4	-	-	-	(3.2)	-	(342.5)	(285.3)
Balance as at 31 March 2019		5,222.9	(1,501.9)	(315.2)	51.4	4.1	(1,095.1)	922.9	3,289.1

Consolidated statement of changes in equity

For the year ended 31 March 2019

		Contributed equity	Restructure reserve (i)	Hedge reserve (ii)	Asset revaluation reserve (iii)	Share based payment reserve (iv)	Other equity component (v)	Retained profits	Total equity
	Notes	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
31 March 2018									
Balance as at 1 April 2017		5,153.2	(1,501.9)	(17.8)	51.4	3.8	(1,095.1)	1,104.8	3,698.4
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	291.4	291.4
Other comprehensive income		-	-	(99.3)	-	-	-	14.5	(84.8)
Total comprehensive income for the year		-	-	(99.3)	-	-	-	305.9	206.6
Transactions with owners, recorded directly in equity									
Dividends paid	D.6	-	-	-	-	-	-	(361.8)	(361.8)
Dividend Reinvestment Plan (net of transaction costs)	D.6	19.6	-	-	-	-	-	-	19.6
Share based payment reserve	F.3	-	-	-	-	3.5	-	-	3.5
Shares purchased as part of employee share plans	D.5	(10.3)	-	-	-	-	-	-	(10.3)
Total transactions with owners		9.3	-	-	-	3.5	-	(361.8)	(349.0)
Balance as at 31 March 2018		5,162.5	(1,501.9)	(117.1)	51.4	7.3	(1,095.1)	1,048.9	3,556.0

Consolidated statement of changes in equity

For the year ended 31 March 2019

- (i) Under the corporate restructure, AusNet Services Ltd shares were issued to shareholders in return for their stapled securities. AusNet Services Ltd share capital was measured at fair value on the date of the transaction, being the market capitalisation of the AusNet Services Stapled Group on the date of implementation of 18 June 2015 (\$4,957.7 million). The difference between the contributed equity of AusNet Services Ltd and the pre restructure contributed equity of the Stapled Group at the date of the transaction was recognised as a restructure reserve.
- (ii) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset.
- (iii) This amount represents the fair value uplift to the assets of the AusNet Services Transmission Group on the date that the previous Stapled Group was formed. The fair value uplift was applied to easements which are considered to have an indefinite useful life. The amount was carried into the asset revaluation reserve of the Group following the corporate restructure on 18 June 2015.
- (iv) The share based payment reserve represents the tax-effected fair value of the performance rights granted under the long term incentive plan. This takes into account estimated vesting and service conditions as at 31 March 2019.
- (v) The other equity component results from the application of reverse acquisition accounting and represents the difference between the net assets of AusNet Services (Transmission) Ltd and AusNet Finance Pty Ltd and the purchase price paid by the legal acquirer, AusNet Services (Transmission) Ltd on 20 October 2005.

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

Consolidated statement of cash flows

For the year ended 31 March 2019

	Notes	2019 \$M	2018 \$M
Cash flows from operating activities			
Profit for the year		253.9	291.4
Add back interest, tax, depreciation		880.3	851.5
Other non-cash items		(23.5)	(4.8)
Working capital movement		18.7	54.5
Income tax paid		(42.3)	(29.2)
Net interest paid		(273.4)	(277.0)
Net cash inflow from operating activities		813.7	886.4
Cash flows from investing activities			
Payments for property, plant and equipment (i)		(893.1)	(732.7)
Proceeds from sale of property, plant and equipment		1.4	7.1
Receipts from desalination licence receivable	C.3	8.8	8.8
Net cash outflow from investing activities		(882.9)	(716.8)
Cash flows from financing activities			
Payments for employee equity plan shares	D.5	(3.1)	(10.3)
Dividends paid (ii)	D.6	(283.2)	(342.2)
Proceeds from borrowings	D.2	574.2	900.9
Repayment of borrowings	D.2	(537.5)	(388.6)
Net cash (outflow)/inflow from financing activities		(249.6)	159.8
Net (decrease)/increase in cash held		(318.8)	329.4
Cash and cash equivalents at the beginning of the year		658.2	328.8
Cash and cash equivalents at the end of the year		339.4	658.2

- (i) Net finance costs include a credit of \$26.4 million (2018: \$16.9 million) for capitalised finance charges which is included in payments for property, plant and equipment.
- (ii) Amounts shown represent dividends paid of \$342.5 million (2018: \$361.8 million) offset by proceeds from the Dividend Reinvestment Plan net of transaction costs of \$59.3 million (2018: \$19.6 million).

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

Notes to the consolidated financial statements31 March 2019

Contents

Section A	Overview	55
Section B	Operating our business	
Note B.1	Segment results	58
Note B.2	Revenue from contracts with customers	61
Note B.3	Earnings per share	62
Note B.4	Working capital	62
Note B.5	Taxation	66
Section C	Investing in our business	
Note C.1	Property, plant and equipment	69
Note C.2	Intangible assets	72
Note C.3	Desalination licence receivable	73
Note C.4	Impairment of non-current assets	73
Note C.5	Commitments	75
Section D	Financing our business	
Note D.1	Capital management	76
Note D.2	Borrowings	76
Note D.3	Financial risk management	78
Note D.4	Net finance costs	91
Note D.5	Equity	92
Note D.6	Dividends	93
Section E	Group structure	
Note E.1	Subsidiaries	94
Note E.2	Parent entity information	95
Note E.3	Related party transactions	96
Section F	Other disclosures	
Note F.1	Remuneration of auditors	98
Note F.2	Defined benefit obligations	98
Note F.3	Share-based payments	101
Note F.4	Contingent liabilities and contingent assets	102
Note F.5	New accounting standards not yet adopted	103
Note F.6	Events occurring after the balance sheet date	105

Notes to the consolidated financial statements

31 March 2019

Section A Overview

We have included information in this report that we deem to be material and relevant to the understanding of the financial statements. Disclosure may be considered material and relevant if the dollar amount is significant due to size or nature, or the information is important to understand:

- our current year results;
- the impact of significant changes in our business; or
- aspects of our operations that are important to future performance.

(a) Basis of preparation

The consolidated general purpose financial report, prepared by a for-profit entity and presented in Australian dollars, represents the consolidated financial statements of AusNet Services Ltd and its subsidiaries. The financial statements were approved by the Board of Directors on 12 May 2019.

The financial report has been prepared:

- in accordance with Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act 2001* (Cth), as well as International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board;
- on a going concern basis, which contemplates the continuity of normal trading operations. The Group's current liabilities exceed current assets by \$639.0 million at 31 March 2019. The Group is, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2019, the Group has available a total of \$778.0 million of undrawn but committed bank debt facilities and \$339.4 million of cash;
- under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value; and
- with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Instrument 2016/191 issued by the Australian Securities and Investments Commission.

Except for the adoption of AASB 15 *Revenue from Contracts with Customers* and AASB Interpretation 23 *Uncertainty Over Income Tax Treatments* (refer to note B.5), the accounting policies applied by the Group in this consolidated financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2018.

(b) Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed throughout the financial statements located within the following notes:

- B.1 - Segment results
- B.2 - Revenue from contracts with customers
- B.4 - Working capital
- B.5 - Taxation
- C.1 - Property, plant and equipment
- C.4 - Impairment of non-current assets
- D.3 - Financial risk management
- F.2 - Defined benefit obligations

Notes to the consolidated financial statements

31 March 2019

Section A Overview (continued)**(c) Change in accounting policies – AASB 15 Revenue from Contracts with Customers**

AASB 15 was adopted from 1 April 2018, using the cumulative effect transition method. The cumulative effect transition method allows opening balances of the current period to be adjusted for transition to the new standard. This approach results in revenue that was previously recognised being deferred on to the balance sheet and re-recognised over the life of the impacted contracts (typically 25 to 30 years). This disclosure shows the impact of AASB 15 on the current period's financial statements.

The following tables summarise the impact of adopting AASB 15 on the Group's consolidated statement of financial position as at 31 March 2019 and its consolidated income statement for the year then ended for each of the line items affected. There was no material impact on the Group's statement of cash flows for the year ended 31 March 2019.

Consolidated statement of financial position as at 31 March 2019

	Before adoption of AASB 15 \$M	Impact of AASB 15 \$M	Reported \$M
LIABILITIES			
Current liabilities			
Payables and other liabilities	291.9	0.2 ¹	292.1
Total current liabilities	1,404.2	0.2	1,404.4
Non-current liabilities			
Deferred revenue	148.4	50.9 ¹	199.3
Deferred tax liabilities	565.7	(15.3)	550.4
Total non-current liabilities	8,086.7	35.6	8,122.3
Total liabilities	9,490.9	35.8	9,526.7
EQUITY			
Retained profits	958.7	(35.8) ²	922.9
Total equity	3,324.9	(35.8)	3,289.1

1 – Includes AASB 15 transition adjustment of \$48.4 million (\$47.5 million non-current, \$0.9 million current) and \$2.7 million of FY2019 deferrals related to negotiated and unregulated transmission contracts.

2 – Includes transition adjustment of \$33.9 million and \$1.9 million of FY2019 deferrals.

Consolidated income statement for the year ended 31 March 2019

	Before adoption of AASB 15 \$M	Impact of AASB 15 \$M	Reported \$M
Revenue	1,864.2	(2.7)	1,861.5
Profit before income tax	374.6	(2.7)	371.9
Income tax expense	(118.8)	0.8	(118.0)
Profit for the period	255.8	(1.9)	253.9

Notes to the consolidated financial statements

31 March 2019

Section A Overview (continued)

(c) Change in accounting policies – AASB 15 *Revenue from Contracts with Customers* (continued)

The following adjustments arose as a result of the transition to AASB 15:

Negotiated and unregulated transmission contracts

Management performed a review of significant contracts which resulted in a change to the accounting treatment of negotiated and unregulated transmission connection contracts. The net impact was a reduction of \$1.9 million on the profit after tax for the year ended 31 March 2019.

The cumulative transition adjustment was a reduction in retained profits of \$33.9 million (after tax, represented by a \$48.4 million increase in deferred revenue and a \$14.5 million decrease in deferred tax liabilities) as at 1 April 2018. The billing schedules in most of these contracts recover higher amounts in the first half of the contract (which are generally 30 year contracts). Under AASB 15, these contracts are considered to have one performance obligation settled evenly over time, being the provision of connection services to the customer. As such, revenue is required to be recognised evenly over the contract term. This results in a deferral of revenue for most of these contracts in the first half of their contract term.

Notes to the consolidated financial statements

31 March 2019

Section B Operating our business

This section highlights the performance of the Group for the year, including results by operating segment, details of income tax expense and related balances and earnings per share. In addition, this section provides information on the working capital used to generate the Group's operating activities and the liabilities incurred as a result.

Note B.1 Segment results

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

(a) Description of reportable segments

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

(i) Electricity distribution

The electricity distribution network carries electricity from the high voltage transmission network to end users, including metering. We charge retailers and some large customers regulated rates for the use of the electricity distribution network. The performance obligation is the provision of the access to the network and as such use of system revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period. Variable consideration relating to volumes is constrained to the period in which it occurs, and volume over or under recoveries under the revenue cap are not considered to comprise variable consideration in accordance with AASB 138 *Intangible Assets*.

Excluded ancillary and alternative control services including public lighting, cross boundary charges and new connection charges are rendered to customers for a fixed rate with revenue recognised at a point in time when the services are rendered. The electricity distribution segment does not purchase or sell electricity. Our electricity distribution network covers eastern Victoria including the eastern metropolitan region of Melbourne.

Customer Contributions

Customer contributions include the receipt of cash from a customer for the construction of assets, or the contribution of completed assets to us.

Non-refundable contributions received from customers towards the cost of extending or modifying our networks are generally recognised as revenue and an asset respectively once control is gained of the contribution or asset and it is operating as intended. The performance obligation is at a point in time being the time at which the customer is connected to the network.

For some customer projects, the performance obligation will be linked to an ongoing service contract, and hence the performance obligation will be satisfied over time, being the contract term.

Customer contributions of cash are measured with reference to the cash contribution received and customer contributions of assets are measured at the fair value of the assets contributed at the date we gain control of the asset. Fair value is determined with reference to the depreciated replacement cost of the asset, unless another measure of fair value is considered more appropriate.

(ii) Gas distribution

The gas distribution network carries natural gas to commercial and residential end users, including metering. We charge retailers and some large customers regulated rates for the use of the gas distribution network. The performance obligation is the provision of the access to the network and as such use of system revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period. Variable consideration, being the volume fluctuations or true ups for unaccounted for gas are constrained to the period to which they apply. The gas distribution segment does not purchase or sell gas. Our gas distribution network covers central and western Victoria.

Customer contributions in the gas distribution segment are accounted for in the same way as the electricity distribution segment.

Notes to the consolidated financial statements

31 March 2019

Note B.1 Segment results (continued)

(a) Description of reportable segments (continued)

(iv) Electricity transmission

We own and manage the vast majority of the electricity transmission network in Victoria. Our electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power generators to electricity distributors around Victoria forming the backbone of the Victorian electricity network. We charge the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network. Prescribed excluded services revenue is generated from assets that will be rolled into the regulated asset base (RAB) in the next regulatory reset period and included in regulated transmission revenue from that date. Negotiated excluded services revenue is generated from assets that are excluded from the RAB but for which revenue is controlled under a regulated negotiating framework. In each case, contracts are based on fixed fees over the life of the asset and performance obligations are satisfied over time. The electricity transmission segment does not purchase or sell electricity.

(v) Mondo

The Mondo business provides contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. The contracted infrastructure asset services business unit owns and operates a portfolio of assets that fall outside the regulated asset base (the largest of which is the Wonthaggi desalination plant transmission connection). The investments are made through directly negotiated agreements, pursuant to which AusNet Services typically receives fixed fee revenue over the contract period in exchange for the infrastructure and operational services provided. Variable consideration includes penalty regimes for unplanned outages, early completion bonuses and other incentives/penalties which vary between contracts and is constrained to the period in which it arises.

Key estimates and judgements – variable consideration

Estimates are made of the amount of variable consideration contained in contracts with customers. The impact of variable consideration is estimated at inception and allocated to the relevant performance obligations. Adjustments for variable consideration are only recognised if it is highly probable that a significant reversal with regards to the variable consideration will not occur once the related uncertainty is removed.

Specialised technology solutions relate to the development and maintenance of asset management software solutions for utility and rail customers. Performance obligations are typically split between the development and the maintenance of the software. Performance obligations for development revenue are based on milestones, and are recognised at a point in time. Performance obligations for software maintenance are satisfied over the life of the contract. There is no variable consideration in these contracts.

For customer contributions in the Mondo business, the performance obligation will be linked to an ongoing service contract, and hence the performance obligation will be satisfied over time, being the contract term.

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

Notes to the consolidated financial statements

31 March 2019

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

	Electricity distribution \$M	Gas distribution \$M	Electricity transmission \$M	Mondo \$M	Inter- segment eliminations \$M	Consolidated \$M
2019						
Regulated revenue	784.4	202.4	540.3	-	(9.7)	1,517.4
Excluded transmission revenue	-	-	73.5	-	(0.2)	73.3
Unregulated infrastructure revenue	-	-	-	54.6	-	54.6
Customer contributions	70.2	7.4	-	0.5	-	78.1
Service revenue	-	-	-	103.1	-	103.1
Other revenue	11.6	5.3	4.4	13.9	(0.2)	35.0
Total segment revenue	866.2	215.1	618.2	172.1	(10.1)	1,861.5
Segment operating expense	(337.7)	(62.6)	(227.8)	(109.3)	10.1	(727.3)
Segment result - EBITDA (i)	528.5	152.5	390.4	62.8	-	1,134.2
Depreciation and amortisation	(284.4)	(51.8)	(97.5)	(22.7)	-	(456.4)
Net finance costs						(305.9)
Income tax expense						(118.0)
Profit for the year						253.9
Capital expenditure	461.0	106.8	211.1	190.9	-	969.8
2018						
Regulated revenue	833.0	213.0	542.4	-	(9.5)	1,578.9
Excluded transmission revenue	-	-	53.8	-	(0.1)	53.7
Unregulated infrastructure revenue	-	-	-	49.3	-	49.3
Customer contributions	48.1	11.0	-	-	-	59.1
Service revenue	-	-	-	135.6	(3.6)	132.0
Other revenue	10.3	0.6	5.7	21.3	(1.1)	36.8
Total segment revenue	891.4	224.6	601.9	206.2	(14.3)	1,909.8
Segment operating expense	(351.2)	(62.3)	(222.1)	(145.6)	14.3	(766.9)
Segment result - EBITDA (i)	540.2	162.3	379.8	60.6	-	1,142.9
Depreciation and amortisation	(273.9)	(48.6)	(99.4)	(20.5)	-	(442.4)
Net finance costs						(283.9)
Income tax expense						(125.2)
Profit for the year						291.4
Capital expenditure	439.3	96.9	163.8	50.2		750.2

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

Notes to the consolidated financial statements

31 March 2019

Note B.2 Revenue from contracts with customers**(a) Disaggregated revenue**

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

31 March 2019	Electricity distribution \$M	Gas distribution \$M	Electricity transmission \$M	Mondo \$M	Inter-segment eliminations \$M	Total \$M
Timing of recognition						
At a point in time	97.4	19.1	4.0	76.0	-	196.5
Over time	767.7	196.0	613.7	95.6	(10.1)	1,662.9
Revenue from contracts with customers	865.1	215.1	617.7	171.6	(10.1)	1,859.4
Other income not in scope of AASB 15						
Lease income	0.1	-	0.5	-	-	0.6
Income from government grants	1.0	-	-	0.5	-	1.5
Total revenue	866.2	215.1	618.2	172.1	(10.1)	1,861.5

Key estimates and judgements – timing of satisfaction of performance obligations

For performance obligations satisfied over time, we typically use the output method, with the passage of time used as the measure of satisfaction of performance obligations. This is because our performance obligations satisfied over time are based on a fixed fee for the use of or access to an asset. In these scenarios, volumes or other activity do not impact the amount or timing of revenue recognition. The period over which the performance obligations are satisfied can be the contract term (in the case of unregulated revenues) or the period to the next regulatory reset period (in the case of regulated revenues).

Notes to the consolidated financial statements

31 March 2019

Note B.3 Earnings per share**(a) Basic earnings per share**

	2019	2018
Profit attributable to ordinary shareholders of AusNet Services (\$M)	253.9	291.4
divided by Weighted average number of shares (million)	3,620	3,605
equals Earnings per share (cents)	7.01	8.08

(b) Diluted earnings per share

There were no factors causing a dilution of either the profit or loss attributable to ordinary shareholders or the weighted average number of ordinary shares outstanding. We have the option to issue equity to meet vested share rights to employees, however are currently purchasing these on market. Accordingly, basic and diluted earnings per share are the same.

Note B.4 Working capital

Working capital are assets and liabilities that are utilised as part of the day-to-day operations of the Group and are not used for investing purposes.

Key estimates and judgements - Accrued revenue

Revenue accrual estimates are made to account for the unbilled period between the end user's last billing date and the end of the accounting period. The accrual relies on detailed analysis of customers' historical consumption patterns, and takes into account base usage and sensitivity to prevailing weather conditions. The results of this analysis are applied for the number of days and weather conditions over the unbilled period.

The accrual for solar rebates paid to retailers is calculated by applying the average rebate per day (based on the amount billed) to the number of unbilled days at month end.

Notes to the consolidated financial statements

31 March 2019

Note B.4 Working capital (continued)

	Assets		Liabilities	
	2019	2018	2019	2018
	\$M	\$M	\$M	\$M
Accounts receivable/payable	53.1	43.2	(21.2)	(13.5)
Accrued revenue - other/accrued expenses	4.5	4.6	(134.8)	(144.1)
Accrued revenue - contract assets (i)	140.1	130.2	-	-
Related party receivables/payables	1.5	3.3	(36.4)	(27.5)
Deferred revenue - contract liabilities (ii)	-	-	(44.3)	(44.8)
Deferred revenue - government grants	-	-	(1.3)	(1.3)
Deferred revenue - other	-	-	(1.7)	(1.6)
Other receivables/payables	0.4	0.2	(8.1)	(8.8)
Interest receivables/payables	0.3	1.5	(44.3)	(38.8)
Total current receivables/payables and other liabilities	199.9	183.0	(292.1)	(280.4)
Current other asset	24.3	24.5	-	-
Non-current accounts receivable	0.7	0.8	-	-
Non-current other contract assets (i)	8.0	-	-	-
Non-current other assets (iii)	46.2	52.1	-	-
Current inventory	50.5	42.3	-	-
Non-current inventory	18.3	18.9	-	-
Non-current deferred revenue - contract liabilities (ii)	-	-	(132.3)	(35.7)
Non-current deferred revenue - government grants	-	-	(66.2)	(48.9)
Non-current deferred revenue - other	-	-	(0.8)	(2.5)
Current provisions	-	-	(98.0)	(93.3)
Non-current provisions	-	-	(58.7)	(49.6)
Defined benefit reserve and share based payment reserve	-	-	(33.6)	(41.2)
Working capital	347.9	321.6	(681.7)	(551.6)
Total working capital movement	(103.8)			
Comprising:				
Operating activities	(18.7)			
Investing and financing activities (iv)	(36.7)			
AASB 15 transition (retained profits) (v)	(48.4)			
	(103.8)			

(i) Contract assets primarily relate to unbilled regulated distribution and transmission revenue.

(ii) Contract liabilities primarily relate to funds received in advance for customer contributions, telecommunications services, unregulated infrastructure services and software maintenance fees. Revenue is recognised over the construction period and contract term. Revenue recognised in FY19 that was included in the contract liability balance at 1 April 2018 was \$32.2 million.

Of the total contract liabilities of \$176.6 million we expect that approximately 25 per cent of these performance obligations will be satisfied in the next twelve months, with the remainder satisfied over the longer term. Long-term obligations primarily comprise unregulated and negotiated transmission contracts (primarily 30 years).

(iii) Includes \$43.0 million (2018: \$51.9 million) defined benefit surplus, refer to note F.2 for further details.

(iv) Includes accrued interest and the portions of accounts payable and accrued expense that relate to capital expenditure.

(v) Refer to note A(c).

Notes to the consolidated financial statements

31 March 2019

Note B.4 Working capital (continued)**(a) Accounts receivable**

Current and non-current receivables are initially recognised at the fair value of the amounts to be received and are subsequently measured at amortised cost, less any allowance for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. An allowance for impairment is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables.

Accounts receivable are non-interest bearing and the average credit period on sales of transmission, distribution and specialist utility services is ten business days.

The ageing of accounts receivable as at reporting date was:

	Gross	Allowance	Gross	Allowance
	2019	2019	2018	2018
	\$M	\$M	\$M	\$M
Not past due	39.4	-	28.3	-
0 - 30 days	2.1	-	7.4	-
31 - 60 days	3.0	-	1.9	-
61 - 90 days	2.2	-	0.9	-
Greater than 90 days	9.0	(1.9)	5.5	(0.8)
Total	55.7	(1.9)	44.0	(0.8)

Of those debts that are past due, the majority are receivable from high credit quality counterparties. Receivables relating to regulated revenue streams (which account for approximately 86 per cent of revenues) are owed by retailers and distributors in the industry. There are strict regulatory requirements regarding who can obtain a retail or distribution licence and the Essential Services Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. The Australian Energy Market Operator (AEMO) also has high prudential requirements for retailers who participate in the market. Retailers must provide guarantees as requested by AEMO to minimise the risk of exposure by other participants to any defaults.

(b) Trade and other payables

These amounts represent liabilities for goods and services provided to us prior to the end of financial year which are unpaid. Trade and other payables are stated at cost, are unsecured and are usually payable within 30 days of end of month.

Notes to the consolidated financial statements

31 March 2019

Note B.4 Working capital (continued)**(c) Provisions**

	2019	2018
	\$M	\$M
Current provisions		
Employee benefits (i)	85.0	83.8
Sundry provisions (ii)	7.6	5.9
Redundancy provision	4.7	3.0
Environmental provision (iii)	0.7	0.6
Total current provisions	98.0	93.3
Non-current provisions		
Employee benefits (i)	10.0	8.7
Environmental provision (iii)	35.1	32.1
Make good provision	13.6	8.8
Total non-current provisions	58.7	49.6
Total provisions	156.7	142.9

- (i) Employee benefits provisions represent provisions for annual and long service leave for our employees as well as provisions for employee bonuses. Liabilities for annual leave and long service leave are measured at the present value of expected future payments for services provided by employees up to the reporting date, including on costs. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on corporate bonds with a term to maturity and currency that match, as closely as possible, the estimated future cash outflows.
- (ii) Sundry provisions include uninsured losses, make good provisions and provisions for cross boundary charges.
- (iii) The environmental provision represents an estimate of the costs of rehabilitating sites, including the estimated costs to remediate soil and water contamination on gas sites which were previously used as coal gas production facilities. The provision is based on the estimated costs and timing of remediation/refurbishment, taking into account current legal requirements, the estimated extent of the contamination, the nature of the site and surrounding areas, and the technologies and methods available.

Notes to the consolidated financial statements

31 March 2019

Note B.5 Taxation**Key estimates and judgements - Income taxes**

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in relation to the application of tax legislation as it applies to AusNet Services Ltd. Judgement is required in determining the timing of deductibility of expenditure, which impacts the amount of income tax payable and whether deferred tax balances are to be recognised in the statement of financial position. Changes in tax legislation or the interpretation of tax laws by tax authorities may affect the amount of provision for income taxes and deferred tax balances recognised.

During the year, the Australian Taxation Office (ATO) completed a Pre-Lodgement Compliance Review (PCR) for the income years 31 March 2017 and 31 March 2016. The PCR identified matters in respect of capital allowances, which the ATO sought additional information and where the interpretation of tax laws affects the amount of provision for income tax and deferred tax balances recognised. In December 2018, the ATO commenced an audit matter in relation to the profile of capital allowances (tax depreciation profile and entitlements) following the corporate restructure in June 2015. The audit is expected to be completed by December 2019.

While work is ongoing and there are a range of possible outcomes, management has recognised a tax risk provision of \$11.0 million based on a probability-weighted range of possible outcomes. AusNet Services continues to engage cooperatively with the ATO through the course of the audit, with the intention of resolving these issues without requiring this provision.

(a) Effective tax rate reconciliation

	2019	2018
	\$M	\$M
Profit before income tax	371.9	416.6
Tax at the Australian tax rate of 30.0% (2018: 30.0%)	111.6	125.0
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:		
Prior year under provisions	0.5	0.6
Tax risk provision	11.0	-
Sundry items	(5.1)	(0.4)
Income tax expense	118.0	125.2
Consists of:		
Current tax	68.6	53.3
Prior year under/(over) provision – current tax	1.9	(5.2)
Deferred tax	48.9	71.3
Prior year (over)/under provision – deferred tax	(1.4)	5.8
Income tax expense	118.0	125.2

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill. Both our current income tax and deferred tax are calculated using tax rates that have been enacted or substantively enacted at reporting date.

(b) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Notes to the consolidated financial statements

31 March 2019

Note B.5 Taxation (continued)**(c) Deferred tax**

Deferred tax assets / (Deferred tax liabilities)						
	1 April 2018	Other items (i)	Prior year (under)/overs	(Charged)/ credited to income statement	Charged/ (credited) directly in equity 31 March 2019	
	\$M	\$M	\$M	\$M	\$M	\$M
2019						
Employee benefits	27.8	-	-	0.8	-	28.6
Other accruals and provisions	57.5	14.5	-	19.8	(0.6)	91.2
Derivative financial instruments and fair value adjustments on borrowings	11.4	-	(1.1)	9.9	93.1	113.3
Defined benefit funds	(15.6)	-	-	1.1	1.6	(12.9)
Intangibles	(26.7)	-	-	-	-	(26.7)
Desalination licence receivable	(23.3)	-	-	(4.4)	-	(27.7)
Property, plant and equipment	(642.6)	-	2.5	(76.1)	-	(716.2)
Net deferred tax liabilities	(611.5)	14.5	1.4	(48.9)	94.1	(550.4)
	1 April 2017	Other items (i)	Prior year (under)/overs	(Charged)/ credited to income statement	Charged/ (credited) directly in equity 31 March 2018	
	\$M	\$M	\$M	\$M	\$M	\$M
2018						
Employee benefits	28.9	-	-	(1.1)	-	27.8
Other accruals and provisions	51.6	-	(0.1)	5.5	0.5	57.5
Derivative financial instruments and fair value adjustments on borrowings	(39.0)	-	-	3.5	46.9	11.4
Defined benefit funds	(9.8)	-	-	0.3	(6.1)	(15.6)
Intangibles	(26.6)	-	-	(0.1)	-	(26.7)
Desalination licence receivable	(18.9)	-	-	(4.4)	-	(23.3)
Property, plant and equipment	(572.6)	10.7	(5.7)	(75.0)	-	(642.6)
Net deferred tax liabilities	(586.4)	10.7	(5.8)	(71.3)	41.3	(611.5)

(i) Other items in the current year relates to the tax effect of the AASB 15 transition adjustment per note A.

During FY2016 AusNet Services Ltd formed a single tax consolidated group that replaced the previous two tax consolidated groups of AusNet Services (Distribution) Ltd and AusNet Services (Transmission) Ltd. As a result of this change the tax bases of the assets of the AusNet Services (Distribution) Ltd tax consolidated group were reset with a valuation uplift.

Deferred tax liabilities were reduced in the prior year by the estimated tax effect of the valuation uplift. The Group is amending the FY2016 and FY2017 tax returns to reflect the actual tax depreciation on individual assets following an allocation exercise undertaken in FY2018.

Notes to the consolidated financial statements

31 March 2019

Note B.5 Taxation (continued)

(c) Deferred tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect at the reporting date to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and we intend to settle our tax assets and liabilities on a net basis.

(i) Tax consolidation

AusNet Services Ltd is the head entity in a tax consolidated group comprising itself and its wholly owned subsidiaries.

The current and deferred tax amounts for the tax consolidated group are allocated among entities in the group using the stand alone taxpayer method.

Members of the tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangement requires payments to/(from) the head entity equal to the current tax liability/(asset) calculated under the stand alone taxpayer method and any deferred tax asset relating to tax losses assumed by the head entity. Members of the tax consolidated group have also entered into a valid tax sharing agreement under the tax consolidation legislation which set out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated group.

The head entity recognises deferred tax assets arising from unused tax losses of its tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the assets can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised in conjunction with any tax funding arrangement amounts.

Notes to the consolidated financial statements

31 March 2019

Section C Investing in our business

This section highlights the investments made by us into our non-current asset base, including the core network assets, and provides a summary of our impairment assessment.

Note C.1 Property, plant and equipment

Key estimates and judgements - Useful life assessments

Management judgement is applied to estimate service lives and residual values of our assets and these are reviewed annually. If service lives or residual values need to be modified, the depreciation expense changes as from the date of reassessment until the end of the revised useful life (for both the current and future years). This assessment includes consideration of the regulatory environment and technological developments.

Items of property, plant and equipment are stated at historical cost less depreciation. The cost of contributed assets is their fair value at the date we gain control of the asset.

Historical cost includes all expenditure that is directly attributable to the acquisition of the asset, including an appropriate allocation of overheads and capitalised borrowing costs. Cost may also include transfers from the hedge reserve of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably.

Items of plant and equipment under construction are recognised as capital work in progress. Once the asset construction is complete and the asset is capable of operating in the manner intended by management, the item of plant and equipment is transferred from capital work in progress to the relevant asset class and depreciation of the asset commences.

Maintenance and repair costs and minor renewals are charged as expenses as incurred, except where they relate to the replacement of an asset, in which case the costs are capitalised and depreciated, and the replaced item is derecognised.

Depreciation is recognised on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually, and where changes are made, their effects are accounted for on a prospective basis.

Notes to the consolidated financial statements

31 March 2019

Note C.1 Property, plant and equipment (continued)

	Freehold land	Buildings	Easements (i)	Transmission network	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital work in progress	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Useful life (years)	Indefinite	40-99	30-Indefinite	15-70	5-70	15-80	3-12	n/a	
2019									
Carrying amount as at 1 April 2018	253.5	423.0	1,223.4	2,104.3	4,007.1	1,557.3	194.0	529.2	10,291.8
Additions								924.6	924.6
Transfers	-	13.9	4.1	223.1	400.8	110.5	49.1	(801.5)	-
Disposals	-	-	-	(1.4)	(13.2)	(6.4)	(2.1)	-	(23.1)
Depreciation expense	-	(11.1)	(0.1)	(80.4)	(187.6)	(46.1)	(78.1)	-	(403.4)
Carrying amount as at 31 March 2019	253.5	425.8	1,227.4	2,245.6	4,207.1	1,615.3	162.9	652.3	10,789.9
Cost	253.5	528.6	1,227.5	3,119.8	5,780.3	2,104.9	686.1	652.3	14,353.0
Accumulated depreciation	-	(102.8)	(0.1)	(874.2)	(1,573.2)	(489.6)	(523.2)	-	(3,563.1)
Carrying amount as at 31 March 2019	253.5	425.8	1,227.4	2,245.6	4,207.1	1,615.3	162.9	652.3	10,789.9

(i) Easements for unregulated transmission contracts are depreciated over the life of the contract.

Notes to the consolidated financial statements

31 March 2019

Note C.1 Property, plant and equipment (continued)

	Freehold land	Buildings	Easements	Transmission network	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital work in progress	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Useful life (years)	Indefinite	40-99	Indefinite	15-70	5-70	15-80	3-12	n/a	
2018									
Carrying amount as at 1 April 2017	253.2	410.6	1,219.2	2,055.3	3,901.3	1,515.3	248.1	397.0	10,000.0
Additions	-	-	-	-	-	-	-	702.6	702.6
Transfers	0.3	26.9	4.2	135.1	292.5	88.3	23.1	(570.4)	-
Disposals	-	(0.8)	-	(6.4)	(10.3)	(2.6)	(0.6)	-	(20.7)
Depreciation expense	-	(13.7)	-	(79.7)	(176.4)	(43.7)	(76.6)	-	(390.1)
Carrying amount as at 31 March 2018	253.5	423.0	1,223.4	2,104.3	4,007.1	1,557.3	194.0	529.2	10,291.8
Cost	253.5	521.5	1,223.4	2,899.3	5,414.0	2,012.9	677.7	529.2	13,531.5
Accumulated depreciation	-	(98.5)	-	(795.0)	(1,406.9)	(455.6)	(483.7)	-	(3,239.7)
Carrying amount as at 31 March 2018	253.5	423.0	1,223.4	2,104.3	4,007.1	1,557.3	194.0	529.2	10,291.8

Notes to the consolidated financial statements

31 March 2019

Note C.2 Intangible assets

	Distribution licences (i)	Goodwill (ii)	Software (iii)	Other intangible assets	Total
	\$M	\$M	\$M	\$M	\$M
Useful life (years)	Indefinite	Indefinite	3-10	3-10	
2019					
Carrying amount as at 1 April 2018	354.5	35.8	159.1	0.7	550.1
Additions	-	-	45.2	-	45.2
Amortisation expense	-	-	(52.4)	(0.6)	(53.0)
Carrying amount as at 31 March 2019	354.5	35.8	151.9	0.1	542.3
Cost	354.5	35.8	587.6	5.5	983.4
Accumulated depreciation	-	-	(435.7)	(5.4)	(441.1)
Carrying amount as at 31 March 2019	354.5	35.8	151.9	0.1	542.3
2018					
Carrying amount as at 1 April 2017	354.5	35.8	162.6	1.9	554.8
Additions	-	-	47.6	-	47.6
Transfers	-	-	0.7	(0.7)	-
Amortisation expense	-	-	(51.8)	(0.5)	(52.3)
Carrying amount as at 31 March 2018	354.5	35.8	159.1	0.7	550.1
Cost	354.5	35.8	545.8	5.5	941.6
Accumulated amortisation	-	-	(386.7)	(4.8)	(391.5)
Carrying amount as at 31 March 2018	354.5	35.8	159.1	0.7	550.1

(i) Distribution licences

The distribution licences held entitle us to distribute electricity and gas within our licensed region. Distribution licences are stated at cost and are considered to be indefinite life intangible assets, which are not amortised. The distribution licences are tested for impairment annually and are carried at cost less any accumulated impairment losses.

The distribution licences are considered to have an indefinite life for the following reasons:

- the licences have been issued in perpetuity provided we comply with certain licence requirements;
- we monitor our performance against those licence requirements and ensure that they are met; and
- we intend to, and are able to continue to, maintain the networks for the foreseeable future.

Notes to the consolidated financial statements

31 March 2019

Note C.2 Intangible assets (continued)

(ii) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, our interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of our previously held equity interest in the acquiree (if any), the excess is recognised immediately in the income statement as a gain.

Goodwill is not amortised but is reviewed for impairment at least annually.

(iii) Software

Computer software, developed internally or acquired externally, is initially measured at cost and includes development expenditure. Subsequently, these assets are carried at cost less accumulated amortisation and impairment losses. Software assets are amortised on a straight-line over their estimated useful lives.

Note C.3 Desalination licence receivable

	2019 \$M	2018 \$M
Desalination licence receivable		
Current receivable	12.1	12.3
Non-current receivable	172.0	180.8
Total desalination licence receivable	184.1	193.1

In December 2012 we entered into a 27-year licence agreement with the Victorian State Government for the right to operate and maintain the 87-kilometre high voltage underground transmission line supplying electricity to the Victorian desalination plant in Wonthaggi. At the same time, we entered into a 27-year agreement with the desalination plant operator to operate and maintain the transmission line in return for a monthly revenue payment.

The upfront payment of \$235 million plus transaction costs of \$1.2 million for the licence has been classified as a receivable. This receivable is interest bearing and \$8.8 million (2018: \$8.8 million) of the total cash flows received from the operator during the year has been allocated against this receivable balance. The monthly revenue payment received from the operator is fixed, with an annual adjustment for inflation. Any amounts not received from the operator, but which are past due, can be recovered from the Victorian State Government.

At the end of the agreements we are required to hand back the transmission line and all associated assets. In the event of early termination of the agreements, the unamortised portion of the upfront licence payment is refunded, along with the reimbursement of necessary costs incurred in order to effect the termination.

Note C.4 Impairment of non-current assets

At each reporting date we review the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. An impairment loss occurs when an asset's carrying amount exceeds its recoverable amount. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, we estimate the recoverable amount of the cash generating unit (CGU) to which the asset belongs. A CGU is the smallest group of assets that generate largely independent cash inflows.

Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually regardless of whether there is an indication that the asset or related CGU may be impaired.

Notes to the consolidated financial statements

31 March 2019

Note C.4 Impairment of non-current assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, the estimated future post-tax cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss is recognised in the income statement immediately.

Key estimates and judgements - Determination of CGUs and estimated recoverable amount of CGUs

We have applied significant judgement in determining our CGUs. In particular, we have determined that the electricity metering assets form part of the electricity distribution CGU as the metering assets are required, together with the rest of the electricity distribution network, in order to provide a network service to customers. As a result, the metering assets are tested for impairment together with the electricity distribution regulated network assets and cash flows.

Key estimates and judgements have also been applied in the discount rate and terminal value multiples used in the measurement of recoverable amount, the details of which are provided below.

The following CGUs have significant amounts of intangible assets with an indefinite life:

	Cash flow projection period (i)		Post-tax discount rate (ii)		Carrying value	
	2019	2018	2019	2018	2019	2018
	years	years	%	%	\$M	\$M
Regulated CGUs						
Electricity distribution (distribution licence)	20	20	5.1	5.2	117.2	117.2
Electricity distribution (goodwill)	20	20	5.1	5.2	19.0	19.0
Gas distribution (distribution licence)	20	20	5.1	5.2	237.3	237.3
Unregulated CGUs						
Mondo – field services (goodwill)	5	5	10.2	10.3	16.5	16.5

Recoverable amount is the higher of fair value less costs to sell and value in use.

- (i) Regulated cash flow forecasts are based on allowable returns on electricity and gas distribution assets as set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively, together with other information included in our five year forecast. Cash flows after that period are based on an extrapolation of the forecast, taking into account inflation and expected customer connection growth rates. It is considered appropriate to use cash flows after our five year forecast period considering the long term nature of the Group's activities.
- (ii) The discount rate represents the post-tax discount rate applied to the cash flow projections. The discount rate reflects the market determined risk adjusted discount rate that is adjusted for specific risks relating to the CGU.

Appropriate terminal values were calculated using a range of both RAB multiples and market earnings before interest, tax, depreciation and amortisation multiples. Fair value less costs to sell is measured using inputs that are not based on significant observable market data. Therefore, they are considered to be level three within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

Notes to the consolidated financial statements

31 March 2019

Note C.5 Commitments**(a) Capital commitments**

Capital expenditure contracted for at the reporting date but not recognised as a liability is as follows:

	2019	2018
	\$M	\$M
Property, plant and equipment	312.0	340.5

(b) Lease commitments

Our leases relate to premises, network land and access sites under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. We do not have any finance lease arrangements.

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities are as follows:

	2019	2018
	\$M	\$M
Payable:		
Within one year	13.4	14.0
Later than one year, but no later than five years	48.4	31.1
Later than five years	93.2	47.3
	155.0	92.4
Representing:		
Non-cancellable operating leases	155.0	92.4

Notes to the consolidated financial statements

31 March 2019

Section D Financing our business

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

Note D.1 Capital management

Our capital structure consists of debt and equity. We determine the appropriate capital structure in order to finance the current and future activities of the Group. We review our capital structure and dividend policy regularly and do so in the context of our ability to continue as a going concern, to invest in opportunities that grow the business and to enhance shareholder value.

Our policy is to target an 'A' range credit rating to ensure low cost of capital in order to generate desired shareholder returns.

An important credit metric which assists management to monitor our capital structure is the net debt to Regulated and Contracted Asset Base (R&CAB) ratio, determined as indebtedness as a percentage of the R&CAB. Indebtedness is debt at face value (net of cash) excluding any derivative financial instruments. The R&CAB consists of the following items:

- Regulated Asset Base (RAB), which is subject to some estimation as the AER ultimately determines the RAB of each network; and
- The value of contracted network assets whose revenues and returns are set through a negotiated or competitive process. This includes the value of network assets that will form part of the RAB at the next regulatory period, as well as the carrying value of the desalination licence receivable.

The movement of this metric over time demonstrates how the business is funding its capital expenditure in terms of debt versus income generating assets. We target a net debt to R&CAB ratio of less than 75 per cent.

In addition, there are other important credit metrics that we regularly monitor. These include funds from operations (FFO) to debt and interest cover ratio.

The net debt to R&CAB ratio as at reporting date was as follows:

	2019	2018
	%	%
Net debt to R&CAB	67.1	66.7

This ratio does not include equity credits in relation to \$706 million of hybrid securities.

Note D.2 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, except as detailed below. Any difference between the proceeds (net of transaction costs) and redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings which are part of a fair value hedge relationship are recognised at amortised cost, adjusted for the gain or loss attributable to the hedged risk. The gain or loss attributable to the hedged risk is recorded in the income statement together with any changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges.

Borrowings are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date or have the sole discretion to refinance or roll over the liability for at least 12 months after the reporting date under an existing loan facility.

Notes to the consolidated financial statements

31 March 2019

Note D.2 Borrowings (continued)

	Maturity date	Carrying Value		Face Value (i)	
		2019	2018	2019	2018
		\$M	\$M	\$M	\$M
Current borrowings					
Swiss francs (CHF) senior notes	Apr 2019	389.5	-	283.2	-
Bank debt facilities	Oct 2019	22.0	4.0	22.0	4.5
Domestic medium term notes	Feb 2020	341.1	-	335.2	-
Hong Kong dollar (HKD) senior notes	Mar 2020	127.1	-	100.0	-
Floating rate note	Mar 2020	100.0	-	100.0	-
Pound sterling (GBP) senior notes		-	461.4	-	537.5
Total current borrowings		979.7	465.4	840.4	542.0
Non-current borrowings					
Swiss franc (CHF) senior notes		-	378.4	-	283.2
Floating rate notes		-	99.9	-	100.0
Euro (EUR) senior notes	2020-2030	2,637.1	2,608.6	2,329.8	2,329.8
Hong Kong dollar (HKD) senior notes	2021-2034	876.5	785.0	751.5	741.0
Domestic medium term notes	2021-2043	1,949.5	2,063.8	1,885.0	2,012.4
Japanese yen (JPY) senior notes	2024	66.3	63.4	62.6	62.6
US dollar (USD) senior notes	2026	118.7	103.3	107.0	107.0
Norwegian kroner (NOK) senior notes	2027-2029	596.4	333.8	565.8	319.4
US dollar (USD) hybrid securities (ii)	2076	513.7	464.7	505.7	505.7
Singapore dollar (SGD) hybrid securities (ii)	2076	208.5	198.8	199.6	199.6
Total non-current borrowings		6,966.7	7,099.7	6,407.0	6,660.7
Total borrowings		7,946.4	7,565.1	7,247.4	7,202.7
less: cash and cash equivalents		339.4	658.2	339.4	658.2
Net debt		7,607.0	6,906.9	6,908.0	6,544.5

(i) Face value represents the principal amount that has to be repaid on maturity, excluding any adjustments for loan fees, discounts and interest cash flows. Foreign currency debt is translated at hedged FX rates, with 100 per cent of the debt hedged for foreign currency risk at draw down.

(ii) The first call date for hybrid securities is September 2021.

(a) Foreign currency translation

All foreign currency transactions including foreign currency borrowings are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items denominated in foreign currencies, including foreign currency borrowings, are translated at the exchange rate existing at that date. Resultant exchange differences are recognised in the income statement for the year, except for exchange differences for qualifying cash flow hedges which are recognised in other comprehensive income.

The foreign currency risk associated with our foreign currency borrowings is hedged through the use of cross currency swaps. Refer to Note D.3.

(b) Fair values of financial instruments

We have a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings outlined above, the carrying amounts of these items are considered to be a reasonable approximation of their fair value as at 31 March 2019. The fair value of total borrowings as at 31 March 2019 was \$8,562.0 million (2018: \$8,152.3 million).

Notes to the consolidated financial statements

31 March 2019

Note D.2 Borrowings (continued)**(c) Financial covenants**

The terms of certain financing arrangements contain financial covenants that require maintenance of specified interest coverage ratios and gearing ratios. However, these covenants only apply if there are downward changes in credit ratings. In addition, there are change of control and/or ownership and cross default provisions. We monitor and report compliance with our financial covenants on a monthly basis. There have been no breaches during the year.

(d) Other bank guarantees

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The subsidiaries have guarantee facilities with a number of institutions amounting to \$15.0 million, of which \$6.1 million was provided to third parties at 31 March 2019 (2018: \$6.6 million).

(e) Changes in liability arising from financing activities

The table below details the movements in the Group's interest bearing liabilities for the year ended 31 March 2019:

	Cash flow movements (financing activities)				Non-cash flow movements			31
	1 April 2018	Proceeds	Repayments	Reclassification	Foreign exchange movements	Fair value adjustment	Funding costs	March 2019
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Current	465.4	17.5	(537.5)	933.2	105.4	(5.2)	0.9	979.7
Non-current	7,099.7	556.7	-	(933.2)	75.7	167.2	0.6	6,966.7
Total	7,565.1	574.2	(537.5)	-	181.1	162.0	1.5	7,946.4

Note D.3 Financial risk management

Our activities expose us to a number of financial risks, including:

- Interest rate risk - the risk that we suffer financial loss due to an adverse movement in interest rates on our borrowings or the impact changes in interest rates have on our regulated revenues.
- Currency risk - the risk that we suffer financial loss due to adverse exchange rate movements on our foreign currency denominated borrowings.
- Liquidity risk - the risk that an unforeseen event occurs which will result in us not being able to meet our payment obligations in an orderly manner.
- Credit risk - the risk that one or more of our counterparties will default on its contractual obligations resulting in financial loss to us and arises from our financial assets, comprising cash and cash equivalents, trade and other receivables and derivative financial instruments.

We manage our exposure to these risks in accordance with our Treasury Risk Policy which is approved by the Board. The policy is reviewed by the Audit and Risk Management Committee periodically. Any material changes are submitted to the Board for approval.

The objective of the Treasury Risk Policy is to document our approach to treasury risk management and to provide a framework for ongoing evaluation and review of risk management techniques. The policy provides an analysis of each type of risk to which we are exposed and the objective of and techniques for managing the risk, including identifying and reporting risks to management and the Board.

Notes to the consolidated financial statements

31 March 2019

Note D.3 Financial risk management (continued)

Our treasury team evaluates and hedges financial risks in close co-operation with the Group's operating units. The Treasury Risk Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating risks, the use of derivative financial instruments and investing excess liquidity.

The Treasury Risk Policy operates in conjunction with several other AusNet Services policies, including:

- The Authority Manual which sets out the approvals required for such things as investment of surplus funds, execution of hedging transactions, borrowings and issue of guarantees and indemnities;
- The Treasury Operations Manual which sets out the day-to-day Treasury front office processes such as cash management and the operations of the Treasury back office, such as settlement processes and bank account operations;
- The Refinancing and Hedging Strategy which sets out the refinancing and hedging strategies over the relevant financial period; and
- The AusNet Services Credit Metrics Policy which sets out target ranges for the key credit metrics that determine the Group's credit strength, such as the percentage of debt to the value of the R&CAB at balance date.

Together these policies provide a financial risk management framework which supports our objectives of finding the right balance between risk and reward to enhance profitability and business performance while minimising current and future exposures.

The material financial risks associated with our activities are each described below, together with details of our policies for managing the risk.

(a) Interest rate risk

We are exposed to the risk of movements in interest rates on our borrowings. In addition, our regulated revenues for the transmission and distribution businesses are directly impacted by changes in interest rates. This is a result of the 'building block' approach where interest rates are a major input in the determination of the regulatory weighted average cost of capital and consequently regulated revenues. The AER use a Trailing Average Portfolio approach to setting the weighted average cost of capital. This approach assumes that 10 per cent of the debt for each network is refinanced each year. As such, the average cost of capital is reset each year to take into account this assumed refinancing.

The objective of hedging activities in relation to interest rate risk is to minimise the exposure to changes in interest rates by aligning the actual cost of debt with the cost of debt assumed by the regulator. The exposure is managed by maintaining the percentage of fixed rate debt to total debt at a level between 90 per cent and 100 per cent for the relevant business. We therefore consider net interest rate exposure, after hedging activities, to be minimal for the Group. The percentage of fixed rate debt to total debt (on a net debt basis) as at 31 March 2019 was 98.5 per cent (2018: 98.8 per cent).

We utilise interest rate swaps to manage our exposure to cash flow interest rate risk and achieve the targeted proportion of fixed rates on our debt portfolio. Under interest rate swaps, we agree to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable us to mitigate the risk of changing interest rates on debt held.

Notes to the consolidated financial statements

31 March 2019

Note D.3 Financial risk management (continued)**(a) Interest rate risk (continued)**

As at reporting date, we had the following financial assets and liabilities exposed to interest rate risk. The values disclosed below are the principal amounts, which differ from the carrying values and as such do not agree to the statement of financial position.

	2019	2018
	\$M	\$M
Financial assets		
Fixed rate instruments	327.0	650.0
Floating rate instruments	-	-
Financial liabilities (i)		
Fixed rate instruments	(6,816.5)	(6,475.5)
Floating rate instruments	(430.9)	(727.2)

- (i) The financial liabilities above include the impact of derivative financial instruments used to manage the interest rate and foreign currency exposures on those liabilities. Therefore, they represent the post hedge position. It should be noted that some fixed rate borrowings (post hedge) as at reporting date are only fixed for a portion of their term. This is because the maturity profile of borrowings differs from the AER's assumed refinancing profile of the regulated businesses. The remaining portion of this debt will be fixed when the AER resets the cost of debt to cover these periods.

Our exposure to changes in interest rates is limited to exposures denominated in Australian dollars due to our policy of mitigating interest rate risk exposure on foreign currency debt. As a result, the sensitivity analysis below has only been performed based on movements in Australian interest rates. As at reporting date, if Australian interest rates had increased and decreased by 47 basis points as at 31 March 2019 (2018: 54 basis points), with all other variables held constant, post-tax profit and equity would have increased/(decreased) as follows:

	Net profit after tax		Equity after tax (hedge reserve)	
	2019	2018	2019	2018
	\$M	\$M	\$M	\$M
Increase in Australian interest rates with all other variables held constant	1.0	0.5	169.7	194.7
Decrease in Australian interest rates with all other variables held constant	(1.9)	(0.1)	(176.6)	(205.1)

The judgements of reasonably possible movements were determined using statistical analysis of the 95th percentile best and worst expected outcomes having regard to actual historical interest rate data over the previous five years based on the three-month bank bill swap rate. We consider that past movements are a transparent basis for determining reasonably possible movements in interest rates.

Due to our interest rate risk management policies, the exposure to interest rate movements at any point in time is minimal. Therefore, the impact of a reasonably possible movement in interest rates on net profit after tax is minimal. The impact on equity due to any valuation change of derivative financial instruments in cash flow hedges will unwind to zero at maturity of the derivative.

(b) Currency risk

We are exposed to currency risk due to funding activities in offshore debt markets as a means of providing cost effective and efficient funding alternatives, as well as a result of undertaking certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters. The objective of our currency risk management program is to eliminate all foreign exchange risk on funding activities and material foreign exchange related transaction risk by utilising various hedging techniques as approved by the Board. Therefore, we consider our currency risk exposure to be minimal and no sensitivity analysis is required.

Notes to the consolidated financial statements

31 March 2019

Note D.3 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risks***(i) Accounting for financial instruments*

The Group designates derivative financial instruments as either fair value hedges or cash flow hedges:

	Fair value hedges	Cash flow hedges
Objective of the hedge	To mitigate the exposure to changes in fair value of certain borrowings. Fair value hedges are generally fixed rate designated for the terms of borrowings that fall outside of the price review periods for the regulated businesses.	To mitigate the variability in cash flows attributable to variable interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.
Treatment of changes in fair value of qualifying hedges	Recognised immediately in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.	The effective portion is recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in the hedge reserve are recycled in the income statement when the hedged item affects the income statement (generally when the forecast transaction that is hedged takes place). However, when the forecast transaction results in the recognition of a non-financial asset, the gains and losses are transferred from the hedge reserve and included in the measurement of the initial carrying amount of the asset.
Documentation of the hedge relationship	To ensure derivative financial instruments qualify for hedge accounting we document, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as our risk management objectives and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.	
Discontinuation of hedge accounting	Hedge accounting is discontinued when the hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting.	
	After discontinuation, the previously hedged asset or liability is no longer revalued for changes in fair value.	At that time, any cumulative gain or loss existing in the hedge reserve remains in hedge reserve and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedge reserve is immediately recognised in the income statement.

Notes to the consolidated financial statements

31 March 2019

Note D.3 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)***(ii) Measurement and classification*

We classify our derivative financial instruments between current and non-current based on the maturity date of the instrument. As a result, derivative financial instruments are classified as non-current, except for those instruments that mature in less than 12 months, which are classified as current.

At reporting date, our derivative financial instrument positions are as detailed below:

	Interest rate swaps \$M	Forward foreign currency contracts \$M	Cross- currency swaps \$M	Total net derivative financial instruments \$M
2019				
Current assets	5.6	0.2	133.4	139.2
Non-current assets	72.3	-	400.7	473.0
Current liabilities	(2.5)	(0.2)	-	(2.7)
Non-current liabilities	(346.7)	-	(0.5)	(347.2)
Total derivative financial instruments	(271.3)	-	533.6	262.3
Consists of:				
- fair value hedges	78.8	-	207.7	286.5
- cash flow hedges	(350.1)	-	327.1	(23.0)
- not in a hedge relationship	-	-	(1.2)	(1.2)
Total derivative financial instruments	(271.3)	-	533.6	262.3
2018				
Current assets	0.2	0.7	-	0.9
Non-current assets	71.3	0.1	430.2	501.6
Current liabilities	(0.8)	(0.6)	(76.4)	(77.8)
Non-current liabilities	(107.1)	(0.4)	(85.4)	(192.9)
Total derivative financial instruments	(36.4)	(0.2)	268.4	231.8
Consists of:				
- fair value hedges	59.8	-	(153.7)	(93.9)
- cash flow hedges	(95.7)	(0.2)	422.1	326.2
- not in a hedge relationship	(0.5)	-	-	(0.5)
Total derivative financial instruments	(36.4)	(0.2)	268.4	231.8

Notes to the consolidated financial statements

31 March 2019

Note D.3 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)***(ii) Measurement and classification (continued)*

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the derivative financial instrument is designated and effective as a hedging instrument, in which case the timing of the recognition in the income statement depends on the nature of the hedge relationship.

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. Credit risk is obtained directly from the observable Credit Default Swap curves within Bloomberg for each of the relevant counterparties, with the Bilateral Credit Risk applied uniformly across all asset and liability positions as at the reporting date. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity. The unamortised value of the deferred credit risk adjustment for derivative financial instruments as at 31 March 2019 is \$25.8 million (2018: \$38.2 million).

Key estimates and judgements - Fair value of derivative financial instruments

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Derivative financial instruments are recognised at fair value and are measured using market observable data, and where appropriate, are adjusted for credit risk, liquidity risk and currency basis risk. Therefore, they are deemed level two within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

The fair value of derivative financial instruments is determined using valuation techniques and available market observable data as well as market corroboration based on active quotes. These include industry standard interest rates, foreign exchange and currency basis yield curves sourced directly from Bloomberg. Appropriate transaction costs and risk premiums are included in the determination of net fair value.

(iii) Offsetting derivative financial instruments

Derivative assets and liabilities are presented on a gross basis. Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default. Notwithstanding that these financial assets and liabilities do not meet the criteria for being presented on a net basis, if these netting arrangements were applied to the derivative portfolio as at 31 March 2019, derivative assets and liabilities would be reduced by \$332.7 million respectively (2018: \$186.0 million). Refer to the below table:

	Gross amounts in the financial statements	Amounts subject to master netting arrangements	Net amount
	\$M	\$M	\$M
2019			
Derivative financial assets	612.2	(332.7)	279.5
Derivative financial liabilities	(349.9)	332.7	(17.2)
	262.3	-	262.3
2018			
Derivative financial assets	502.5	(186.0)	316.5
Derivative financial liabilities	(270.7)	186.0	(84.7)
	231.8	-	231.8

Notes to the consolidated financial statements

31 March 2019

Note D.3 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)***(iv) Cash flow hedges*

The following table summarises movements in the hedged items and hedging instruments that were designated in cash flow hedges during the year:

	Change in value of hedged item used to measure ineffectiveness (i)	Change in value of hedging instrument used to measure ineffectiveness (i)	Nominal amounts of hedging instruments (i)
	\$M	\$M	\$M
Interest rate risk	259.1	(264.4)	12,667.1
Foreign currency risk – debt	85.4	(83.5)	6,429.0
Foreign currency risk – capital expenditure	(0.2)	0.2	25.7

- (i) Nominal amounts represent the total principal in each hedging instrument (derivative) in cash flow hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both cash flow and fair value hedges is \$12,501.2 million.

The following movements have occurred in the cash flow hedge reserve during the year, net of income tax:

	2019	2018
	\$M	\$M
Opening balance of cash flow hedge reserve	(117.1)	(17.8)
Amounts recognised in other comprehensive income, net of income tax:		
Changes in fair value of cash flow hedges (excluding foreign currency basis spreads)	(356.1)	(159.2)
Amounts reclassified to interest expense for effective hedges	79.6	49.8
Changes in foreign currency basis spreads	(14.7)	7.1
Tax effect	93.1	3.0
Total amounts recognised in other comprehensive income, net of income tax	(198.1)	(99.3)
Closing balance of cash flow hedge reserve	(315.2)	(117.1)

Notes to the consolidated financial statements

31 March 2019

Note D.3 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)***(iv) Cash flow hedges (continued)*

The following table summarises the net cash flows receivable/(payable) under our cash flow hedges:

	2019	2018
	\$M	\$M
Borrowings:		
Less than 1 year	(65.8)	(39.8)
1 – 2 years	17.1	(36.9)
2 – 5 years	(141.7)	61.0
Greater than 5 years	(58.5)	37.6
	(248.9)	21.9

These amounts will impact the income statement in the same period as cash flows are expected to occur, with the exception of hedges of highly probable forecast transactions which will impact the income statement as the underlying asset is utilised.

(v) Fair value hedges

The following table summarises the hedged items included in fair value hedges and their impact on the financial statements:

	Carrying amount of the hedged item	Accumulated amount of fair value adjustments on hedged items	Gain/(loss) on remeasurement of hedged item	Gain/(loss) on remeasurement of hedging instruments	Nominal amounts of hedging instruments (i)
	\$M	\$M	\$M	\$M	\$M
AUD denominated borrowings	(2,410.1)	(81.2)	(29.2)	19.0	1,223.0
Foreign currency denominated borrowings	(5,533.9)	(643.3)	(360.5)	361.2	8,866.4

- (i) Nominal amounts represent the total principal in each hedging instrument (derivative) in fair value hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both cash flow and fair value hedges is \$12,501.2 million.

Notes to the consolidated financial statements

31 March 2019

Note D.3 Financial risk management (continued)

(d) Liquidity risk

We manage liquidity risk by maintaining adequate cash reserves, committed banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. These practices are governed by our liquidity management policies, which include Board approved guidelines covering the maximum volume of long term debt maturing in any one year, the minimum number of years over which debt maturities are to be spread and the timing of refinancing. In addition, short term bank debt and commercial papers must not represent more than an agreed percentage of the total debt portfolio.

The liquidity management policies ensure that we have a well-diversified portfolio of debt, in terms of maturity and source, which significantly reduces reliance on any one source of debt in any particular year. In addition, our investment grade credit rating ensures ready access to both domestic and offshore capital markets.

Our policy is that financing facilities are to be put in place at least six months before maturity of the debt being replaced or in the case of new debt at least six months before funding is required. "In place" is defined as meaning all documentation has been completed and settlement has occurred or if settlement has not occurred (e.g. committed but undrawn bank debt facilities) funding is committed and is not subject to a material adverse change in the market.

(i) Contractual cash flows

Liquidity risk is managed based on net contracted and forecast inflows and outflows from operating, financing and investing activities. The following table summarises the contractual cash flows of our non-derivative and derivative financial assets and liabilities based on the remaining earliest contractual maturities. The contractual cash flows are based on undiscounted principal and interest commitments, and foreign exchange rates at the reporting date.

Notes to the consolidated financial statements

31 March 2019

Note D.3 Financial risk management (continued)**(d) Liquidity risk (continued)***(i) Contractual cash flows (continued)*

2019	Notes	Principal at face value \$M	Carrying amount \$M	Total contractual cash flows \$M	Less than 1 year \$M	1 – 2 years \$M	2 – 5 years \$M	Greater than 5 years \$M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents		339.4	339.4	339.4	339.4	-	-	-
Accounts and other receivables	B.4	199.9	199.9	199.9	199.9	-	-	-
Desalination licence receivable	C.3	184.1	184.1	301.1	23.3	19.4	54.8	203.6
Derivative financial assets								
Interest rate swaps			77.9	96.8	26.8	23.6	33.9	12.5
Cross-currency swaps			534.1	239.7	114.6	71.4	6.6	47.1
Forward foreign currency contracts			0.2					
- Inflow				14.4	13.7	0.7	-	-
- Outflow				(14.2)	(13.5)	(0.7)	-	-
			1,335.6	1,177.1	704.2	114.4	95.3	263.2
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	B.4	244.8	244.8	244.8	244.8	-	-	-
Bank debt facilities		22.0	22.0	22.0	22.0	-	-	-
Domestic medium term notes		2,220.2	2,290.6	2,997.2	453.1	95.5	795.8	1,652.8
USD senior notes		107.0	118.7	138.5	3.7	3.7	11	120.1
CHF senior notes		283.2	389.5	393.8	393.8	-	-	-
HKD senior notes		851.5	1,003.6	1,248.7	157.9	27.1	148.4	915.3
JPY senior notes		62.6	66.3	68.4	0.9	0.9	2.7	63.9
EUR senior notes		2,329.8	2,637.1	2,755.7	52.8	843.1	655.3	1,204.5
NOK senior notes		565.8	596.4	734.9	17.8	17.8	53.5	645.8
USD hybrid securities (i)		505.7	513.7	604.4	30.4	30.4	543.6	-
SGD hybrid securities (i)		199.6	208.5	236.5	11.6	11.4	213.5	-
Floating rate notes		100.0	100.0	103.5	103.5	-	-	-
Derivative financial liabilities								
Interest rate swaps			349.2	394.2	62.4	62.6	141.7	127.5
Cross-currency swaps			0.5	14.2	0.3	0.1	1.5	12.3
Forward foreign currency contracts			0.2					
- Inflow				(11.4)	(6.8)	(3.9)	(0.7)	-
- Outflow				11.6	7.0	4.0	0.6	-
			8,541.1	9,957.0	1,555.2	1,092.7	2,566.9	4,742.2
Net cash outflow				(8,779.9)	(851.0)	(978.3)	(2,471.6)	(4,479.0)

(i) The table above assumes that the Group will exercise at the first call date in September 2021.

Notes to the consolidated financial statements

31 March 2019

Note D.3 Financial risk management (continued)**(d) Liquidity risk (continued)***(i) Contractual cash flows (continued)*

2018	Notes	Principal at face value \$M	Carrying amount \$M	Total contractual cash flows \$M	Less than 1 year \$M	1 – 2 years \$M	2 – 5 years \$M	Greater than 5 years \$M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents		658.2	658.2	658.2	658.2	-	-	-
Accounts and other receivables	B.4	183.0	183.0	183.0	183.0	-	-	-
Desalination licence receivable	C.3	193.1	193.1	321.7	23.9	19.9	56.5	221.4
Derivative financial assets								
Interest rate swaps			71.5	89.7	18.3	18.3	39.8	13.3
Cross-currency swaps			430.2	6.1	(35.2)	76.2	3.6	(38.5)
Forward foreign currency contracts			0.8					
- Inflow				13.2	12.0	1.2	-	-
- Outflow				(12.4)	(11.3)	(1.1)	-	-
				1,536.8	1,259.5	848.9	114.5	99.9
								196.2
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	B.4	234.4	234.4	234.4	234.4	-	-	-
Bank debt facilities		4.5	4.0	4.5	4.5	-	-	-
Domestic medium term notes		2,012.4	2,063.8	2,670.2	94.6	444.1	806.8	1,324.7
Floating rate notes		100.0	99.9	106.9	3.4	103.5	-	-
USD senior notes		107.0	103.3	131.4	3.4	3.4	10.2	114.4
GBP senior notes		537.5	461.4	489.0	489.0	-	-	-
CHF senior notes		283.2	378.4	382.9	4.2	378.7	-	-
HKD senior notes		741.0	785.0	1,027.1	26.4	142.5	128.8	729.4
JPY senior notes		62.6	63.4	66.7	0.9	0.9	2.5	62.4
EUR senior notes		2,329.8	2,608.6	2,846.4	53.5	53.5	923.5	1,815.9
NOK senior notes		319.4	333.8	433.1	10.6	10.6	31.7	380.2
USD hybrid securities (i)		505.7	464.7	586.7	28.1	28.1	530.5	-
SGD hybrid securities (i)		199.6	198.8	237.0	10.9	11.0	215.1	-
Derivative financial liabilities								
Interest rate swaps			107.9	138.0	33.2	28.4	26.8	49.6
Cross-currency swaps			161.8	197.1	67.2	14.6	63.8	51.5
Forward foreign currency contracts			1.0					
- Inflow				(16.6)	(12.4)	(3.0)	(1.2)	-
- Outflow				17.6	13.0	3.3	1.3	-
				8,070.2	9,552.4	1,064.9	1,219.6	2,739.8
								4,528.1
Net cash outflow					(8,292.9)	(216.0)	(1,105.1)	(2,639.9)
								(4,331.9)

(i) The table above assumes that the Group will exercise at the first call date in September 2021.

Notes to the consolidated financial statements

31 March 2019

Note D.3 Financial risk management (continued)**(d) Liquidity risk (continued)***(ii) Financing facilities*

We target a minimum net liquidity, defined as available short term funds and committed financing facilities. As at reporting date, we had the following committed financing facilities available:

	2019	2018
	\$M	\$M
Financing facilities (face value)		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
- Amount used	-	-
- Amount unused	2.5	2.5
	2.5	2.5
Unsecured working capital facility, reviewed annually:		
- Amount used	22.0	4.5
- Amount unused	78.0	95.5
	100.0	100.0
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement:		
- Amount used	-	-
- Amount unused	700.0	450.0
	700.0	450.0
Total financing facilities	802.5	552.5

Notes to the consolidated financial statements

31 March 2019

Note D.3 Financial risk management (continued)**(e) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to us and arises from our financial assets, comprising cash and cash equivalents, trade and other receivables and derivative financial instruments.

We have adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults (refer to Note B.4). Our exposure and the credit ratings of our counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Revenues from a single customer, AEMO (which is majority Government owned), in our electricity transmission segment, represents 30 per cent (2018: 29 per cent) of our total revenues. We are licensed to transmit electricity in Victoria, whereas AEMO is the provider of shared network services and the planner, authoriser, contractor and director of augmentation of the declared shared network in Victoria. A network agreement is in place between both parties whereby we receive network charges from AEMO for the use of our transmission network to transmit electricity to participants in the market. Due to the nature of this network agreement, we do not believe that there is any significant credit risk exposure on this customer. Therefore, we consider the credit risk exposure to be minimal.

In accordance with the Treasury Risk Policy, treasury counterparties each have an approved limit based on the lower of Standard & Poor's or Moody's credit rating. Counterparty limits are reviewed and approved by the Audit and Risk Management Committee and any changes to counterparties or their credit limits must be approved by the Chief Financial Officer and the Managing Director and must be within the parameters set by the Board as outlined in the Treasury Risk Policy.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. At balance date we had \$327 million on term deposit and \$490.7 million of cross currency and interest rate swaps with 'A' rated or higher Australian and international banks.

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents our maximum exposure to credit risk. The values disclosed below represent the market values in the event of early settlement (in the money market values), which differ from the carrying values and as such do not agree to the statement of financial position. The values below exclude any offsetting financial liabilities with the particular counterparty.

	2019	2018
	\$M	\$M
Financial assets and other credit exposures		
Cross currency swaps	548.3	445.8
AUD interest rate swaps	95.5	97.7

Notes to the consolidated financial statements

31 March 2019

Note D.4 Net finance costs

	2019	2018
	\$M	\$M
Finance income (i)		
Interest income	6.6	3.7
Return on desalination licence receivable (refer to note C.3)	11.7	12.2
Total finance income	18.3	15.9
Finance costs (ii)		
Interest expense	323.2	308.6
Other finance charges – cash	3.4	3.4
Other finance charges – non-cash	5.1	3.6
Loss on fair value hedges	9.5	15.4
Loss on transactions not in a hedge relationship	0.7	0.1
Loss/(gain) on ineffective portion of cash flow hedges	3.4	(13.4)
Unwind of discount on provisions	7.0	0.2
Defined benefit net interest (income)/expense	(1.7)	(1.2)
Capitalised finance charges (iii)	(26.4)	(16.9)
Total finance costs	324.2	299.8
Net finance costs	305.9	283.9

- (i) Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.
- (ii) All borrowing costs are recognised in the income statement using the effective interest rate method, other than borrowing costs directly attributable to a qualifying asset which are capitalised into the cost of that asset.
- (iii) The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the average interest rate of 4.6 per cent (2018: 4.6 per cent) applicable to our outstanding borrowings at the end of the period.

Notes to the consolidated financial statements

31 March 2019

Note D.5 Equity

		2019	2018
	Notes	\$M	\$M
Contributed equity			
Ordinary shares - fully paid	(a), (b)	5,232.1	5,172.8
Shares held by employee share plans trust	(c)	(9.2)	(10.3)
Total contributed equity		5,222.9	5,162.5

(a) Ordinary shares

Ordinary shares authorised and issued have no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of AusNet Services in proportion to the number of and amounts paid on the shares issued. Holders of ordinary shares are entitled to one vote on a show of hands or one vote for each ordinary share held on a poll at shareholders' meetings.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

(b) Movements in ordinary share capital

Date	Details	Issue price	Number of shares	\$M
1 April 2018	Opening balance		3,614,346,765	5,172.8
20 December 2018	Dividend Reinvestment Plan (i)	\$1.55	38,317,611	59.3
31 March 2019	Closing balance		3,652,664,376	5,232.1
1 April 2017	Opening balance		3,603,155,012	5,153.2
27 June 2017	Dividend Reinvestment Plan (i)	\$1.69	7,214,309	12.2
21 December 2017	Dividend Reinvestment Plan (i)	\$1.86	3,977,444	7.4
31 March 2018	Closing balance		3,614,346,765	5,172.8

(i) The value of DRP is net of transaction costs.

(c) Shares held by employee share plans trust

In FY2018 the Group established an employee share trust used as a delivery mechanism to satisfy future vesting entitlements for the Short Term Incentive Plan deferred equity rights for the Managing Director and the Long Term Incentive Plan (LTIP) performance rights. During the year, 1,901,462 shares were acquired on market at an average price of \$1.60 per share and 2,411,082 shares vested at an average price of \$1.73 per share.

The share trust is held by Computershare Pty Ltd and for accounting purposes the trust is deemed to be controlled by AusNet Services. Accordingly, the shares held by the trust are consolidated into the Group's financial statements. The shares have been excluded for the earnings per share calculation in Note B.3.

Notes to the consolidated financial statements

31 March 2019

Note D.6 Dividends

The following dividends were approved and paid by AusNet Services to shareholders during the current and previous financial years:

Dividends	Paid by	Date paid	Cents per share	Total dividend \$M
Final FY2018 dividend	AusNet Services	28 June 2018	4.620	166.8
Interim FY2019 dividend	AusNet Services	20 December 2018	4.860	175.7
Total dividends			9.480	342.5

In relation to the dividends paid in the current financial year of \$342.5 million (2018: \$361.8 million), \$59.3 million (2018: \$19.6 million) was utilised in the allotment of new shares issued under the Dividend Reinvestment Plan (DRP), net of transaction costs.

Dividends	Paid by	Date paid	Cents per share	Total dividend \$M
Final FY2017 dividend - ordinary	AusNet Services	27 June 2017	4.400	158.6
Final FY2017 dividend - special	AusNet Services	27 June 2017	1.000	36.0
Interim FY2018 dividend	AusNet Services	21 December 2017	4.630	167.2
Total dividends			10.030	361.8

(a) Franking account

	2019	2018
	\$M	\$M
Franking credits available to shareholders	72.8	32.4

The above available amounts are based on the balance of the dividend franking account at year end adjusted for the increase in franking credits that will arise on payment of the income tax provision at 31 March 2019.

Included within the franking account is \$11.0 million arising from the tax risk provision related ATO audit matter. If the Group's view prevails in this matter, this amount will be reversed, resulting in lower available franking credits.

Notes to the consolidated financial statements

31 March 2019

Section E Group Structure

The following section provides information on our structure and how this impacts the results of the Group as a whole, including details of controlled entities and related party transactions.

Note E.1 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities within the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

The Group's financial statements incorporate the assets, liabilities and results of the following subsidiaries:

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2019	2018
AusNet Services Ltd	Australia	Ordinary	%	%
AusNet Services (Distribution) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Services (RE) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Distribution Group Pty Ltd*	Australia	Ordinary	100.0	100.0
AusNet LDP (No.1) Ltd*	UK	n/a	100.0	100.0
AusNet LDP (No.2) Ltd*	UK	n/a	100.0	100.0
AusNet Holdings General Partner Pty Ltd*	Australia	Ordinary	100.0	100.0
AusNet Holdings (Partnership) Ltd Partnership*	Australia	n/a	100.0	100.0
AusNet Services Holdings Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Electricity Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Asset Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet (No. 8) Pty Ltd*	Australia	Ordinary	100.0	100.0
AusNet (No. 9) Pty Ltd*	Australia	Ordinary	100.0	100.0
AusNet Gas Services Pty Ltd	Australia	Ordinary	100.0	100.0
Mondo Power Pty Ltd**	Australia	Ordinary	100.0	100.0
AusNet Services (Transmission) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Transmission Group Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Finance Pty Ltd*	Australia	Ordinary	100.0	100.0
Geomatic Holdings Pty Ltd	Australia	Ordinary	100.0	100.0
Geomatic Technologies Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Services Insurance Ltd	Guernsey	Ordinary	100.0	100.0
AusNet Services Finance Trust	Australia	Ordinary	100.0	100.0

* In March 2019, the Boards of these companies resolved to liquidate these dormant companies and to dissolve the partnership.

** Renamed during FY2019, previously called Select Solutions Group Pty Ltd.

Notes to the consolidated financial statements

31 March 2019

Note E.2 Parent entity information**(a) Statement of financial position**

	2019	2018
	\$M	\$M
Current assets	31.9	207.0
Non-current assets	5,409.7	5,159.2
Total assets	5,441.6	5,366.2
Current liabilities	31.9	25.6
Non-current liabilities	1.1	-
Total liabilities	33.0	25.6
Contributed equity	5,222.9	5,162.5
Reserves	2.6	5.7
Retained profits	183.1	172.4
Total equity	5,408.6	5,340.6

(b) Statement of comprehensive income

	2019	2018
	\$M	\$M
Profit for the year	353.1	334.0
Total comprehensive income for the year	353.1	334.0

(c) Contingent liabilities

We are not aware of any contingent liabilities of the parent entity as at 31 March 2019 (2018: \$0).

Notes to the consolidated financial statements

31 March 2019

Note E.3 Related party transactions**(a) Major shareholders**

AusNet Services Ltd has two shareholders with a significant investment and board representation, being Singapore Power International Pte Ltd (SPI) and State Grid Corporation of China (State Grid). SPI's ultimate parent is Temasek Holdings (Private) Ltd (Temasek). State Grid has a controlling stake in Jemena Asset Management Pty Ltd (referred to as Jemena).

Under applicable accounting standards, Temasek and its subsidiaries (including SPI) and State Grid and its subsidiaries (including Jemena) are considered to be related parties of AusNet Services. These entities are not considered related parties under the *Corporations Act 2001*.

(b) Key management personnel

	2019	2018
	\$	\$
Short-term employee benefits	6,638,532	6,796,678
Post-employment benefits	351,085	364,354
Equity-based payments	1,049,045	1,196,906
Other long-term benefits	84,555	83,930
	<u>8,123,217</u>	<u>8,441,868</u>

The Remuneration Report within the Directors' report contains details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 31 March 2019.

Notes to the consolidated financial statements

31 March 2019

Note E.3 Related party transactions (continued)**(c) Transactions with related parties**

We engage in a wide variety of transactions with entities in the Temasek Group in the normal course of business on terms similar to those available to other customers. Such transactions include but are not limited to telecommunication services and leasing of properties. All related party transactions are carried out on terms negotiated between the parties which reflect an arm's length basis. As a result, transactions with Temasek interests other than the Singapore Power Group have been excluded from the disclosures below.

We also provide electricity distribution and electricity transmission services to Jemena. AusNet Services earns a regulated return from the provision of these services as these services are regulated by the AER.

Zinfra (a subsidiary of Jemena) performs construction services under competitive tender processes. Increasing construction services provided by related parties reflect the increasing capital expenditure in FY2019, largely as a result of wind farm connections. AusNet Services outsource a large portion of construction expenditure and the procurement function manages competitive tender processes for all contracts.

The following transactions occurred with related parties within the Singapore Power and State Grid groups for the financial year:

	2019	2018
	\$'000	\$'000
Sales of goods and services		
Regulated revenue (i)	10,937	8,313
Services revenue	2,888	15,162
Purchases of goods and services		
Other expenses	3,912	2,792
Property, plant and equipment (construction services)	166,703	108,298
Dividends paid, net of DRP	140,035	171,746

(i) Represents revenues from the provision of electricity distribution and electricity transmission services which are regulated by the AER.

The following balances are outstanding at the reporting date in relation to transactions with related parties within the Singapore Power and State Grid groups:

	2019	2018
	\$'000	\$'000
Current receivables (sale of goods and services)		
Jemena (i)	1,326	192
Singapore Power entities	185	3,133
Current payables and other liabilities (purchase of goods)		
Jemena	36,407	27,473

No allowance for impairment loss has been raised in relation to any outstanding balances due from related parties.

(i) Includes outstanding amounts from the provision of electricity distribution and electricity transmission services which are regulated by the AER.

Notes to the consolidated financial statements

31 March 2019

Section F Other disclosures

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

Note F.1 Remuneration of auditors

During the year the following fees were paid or payable for services provided by KPMG and its related practices:

	2019	2018
	\$'000	\$'000
Audit and review services		
Audit and review of financial statements	1,474	1,439
Audit of regulatory returns (i)	500	500
Total remuneration for audit and review services	1,974	1,939
Other services		
Other assurance, taxation and advisory services	115	292
Total remuneration for other services	115	292
Total remuneration of auditors	2,089	2,231

- (i) It is our policy to employ KPMG to perform the audit of regulatory returns as these returns represent an extension of statutory audit services and we gain efficiencies when the services are performed by the same audit firm.

Note F.2 Defined benefit obligations

We make contributions to two defined benefit superannuation plans that are managed by Equisuper. The funds provide defined benefit amounts to 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. All new members receive defined contribution, accumulation style benefits.

The defined benefit superannuation plans are administered by a trust that is legally separated from the Group. The trustees consist of both employee and employer representatives and an independent chair, all of whom are governed by the scheme rules. The trustees are responsible for the administration of plan assets and for the definition of plan strategy.

	2019	2018
	\$M	\$M
Total amount included in the statement of financial position in respect of the defined benefit plans is as follows:		
Present value of defined benefit obligations	(266.2)	(261.0)
Fair value of plan assets	309.2	312.9
Net asset arising from defined benefit obligations	43.0	51.9

Amounts recognised in the income statement in respect of the defined benefit plans are as follows:

Current service cost	6.3	6.2
Net interest (income)/expense on defined benefit obligation	(1.7)	(1.2)
Total	4.6	5.0
Remeasurement (losses)/gains recognised during the year in other comprehensive income	(5.1)	20.6

Notes to the consolidated financial statements

31 March 2019

Note F.2 Defined benefit obligations (continued)

Each year we engage an independent actuary to perform actuarial reviews of the AusNet Transmission Group Pty Ltd and AusNet Electricity Services Pty Ltd defined benefit funds.

Our net obligation in respect of the defined benefit superannuation funds is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and recognised after deducting the fair value of any plan assets.

The discount rate is the yield at the balance date on corporate bonds that have maturity dates approximating the terms of our obligations. A qualified actuary performs the calculation using the projected unit credit method.

Remeasurements comprise actuarial gains and losses and the return on plan assets (excluding interest). They are recognised in full directly in retained profits in the period in which they occur and are presented in other comprehensive income.

When the calculation of the net obligation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

From 1 July 2018, AusNet Services ceased to make contributions to the defined benefit plans. This contribution holiday is expected to continue during the next financial year under the Target Funding method used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level which is expected to result in the plans' assets equalling 105 per cent of the plans' liabilities within five years. The defined benefit superannuation plans expose us to additional actuarial, interest rate and market risk.

(a) Movement in defined benefit obligation

	2019	2018
	\$M	\$M
Movements in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	261.0	267.3
Current service cost	6.3	6.2
Interest cost	9.3	10.4
Contributions by plan participants	2.3	2.4
Actuarial loss/(gain)	11.1	(4.4)
Benefits, taxes and premiums paid	(23.8)	(20.9)
Closing defined benefit obligations	266.2	261.0

Movements in the fair value of plan assets were as follows:

Opening fair value of plan assets	312.9	299.5
Interest income	11.0	11.6
Actual return on fund assets less interest income	6.0	16.2
Contributions from the employer	0.8	4.1
Contributions by plan participants	2.3	2.4
Benefits, taxes and premiums paid	(23.8)	(20.9)
Closing fair value of plan assets	309.2	312.9

The actual return on plan assets was a gain of \$17.0 million (2018: \$27.8 million).

Notes to the consolidated financial statements

31 March 2019

Note F.2 Defined benefit obligations (continued)**(b) Analysis of plan assets**

Plan assets can be broken down into the following major categories of investments:

	2019	2018
	%	%
Investments quoted in active markets:		
Australian equities	11	15
International equities	18	16
Fixed interest securities	17	17
Unquoted investments:		
Property	7	8
Growth alternative	11	16
Defensive alternative	9	9
Cash	27	19
	100	100

Plan assets do not comprise any of the Group's own financial instruments or any assets used by Group companies.

(c) Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	Defined benefit expense		Defined benefit obligation	
	2019	2018	2019	2018
	%	%	%	%
Key assumptions				
Discount rate	3.7	4.1	3.3	3.7
Expected salary increase rate	3.8	3.8	3.8	3.8

As at 31 March 2019, the weighted average duration of the defined benefit obligation was 8 years (2018: 8 years).

Key estimates and judgements - Defined benefit plans

A number of estimates and assumptions are used in determining defined benefit assets, obligations and expenses. These estimates include salary increases, future earnings and rates of return. Any difference in estimates will be recognised in other comprehensive income and not through the income statement.

The net liability from defined benefit obligations recognised in the consolidated statement of financial position will be affected by any significant movement in investment returns and/or interest rates.

Notes to the consolidated financial statements

31 March 2019

Note F.2 Defined benefit obligations (continued)**(d) Sensitivity analysis**

Changes in the relevant actuarial assumptions as at reporting date, with all other variables held constant, would result in an increase/(decrease) in the value of the defined benefit obligation as shown below:

	Increase \$M	Decrease \$M
Defined benefit obligation		
Discount rate (0.5 per cent movement)	(12.1)	13.0
Expected salary increase rate (0.5 per cent movement)	8.3	(7.9)

When calculating the above sensitivity analysis, the same method has been applied as when calculating the defined benefit liability recognised in the consolidated statement of financial position.

(e) Defined contribution expense

During the year, we contributed \$17.3 million of defined contribution benefit to employees (2018: \$17.5 million).

Note F.3 Share-based payments

We provide benefits to some of our employees (including key management personnel) in the form of share based payments, whereby part of an employees' remuneration is or may be provided in exchange for shares or rights over shares (equity settled transactions) in order to align to shareholder outcomes. The granting of such shares or rights may be subject to satisfaction of certain conditions.

The cost of equity settled transactions is recognised over the period in which the conditions are fulfilled (the vesting period), ending on the date that relevant employees become entitled to the award (the vesting date). At each subsequent reporting date until vesting, the cumulative charge to the income statement is in accordance with the vesting conditions.

(a) Long term incentive plan

We have a Long Term Incentive Plan (LTIP) for executives and other senior management identified by the Board. The plan is based on the grant of performance rights (PRs) that vest into shares at no cost to the employee subject to performance hurdles (refer to the Remuneration Report for further detail). Settlement of the performance rights is made in ordinary shares.

The Group has the following grants on foot at 31 March 2019:

Plan	Grant date	Vesting date	PRs granted	Value of PRs at grant date
LTIP 2018	1 April 2018	31 March 2021	3,876,789	\$4,186,932
LTIP 2017	1 April 2017	31 March 2020	3,327,515	\$4,026,293
LTIP 2016	1 April 2016	31 March 2019	3,542,013	\$3,612,853

Notes to the consolidated financial statements

31 March 2019

Note F.3 Share-based payments (continued)

The fair value of each performance right is estimated on the grant date using the Black-Scholes model. This model used the following inputs for each tranche of rights:

	LTIP 2018	LTIP 2017	LTIP 2016
Share price at grant date	\$1.61	\$1.77	\$1.56
Exercise price	\$0.0	\$0.0	\$0.0
Expected volatility	20%	20%	20%
Risk-free interest rate	2.19%	1.70%	1.61%
Dividend yield	5.50%	5.75%	6.00%
Expected life of performance rights	36 months	36 months	36 months

The expected volatility is based on the Group's historical volatility and is designed to be indicative of future trends, which may not reflect actual volatility.

Reconciliation of equity rights on issue:

	2018 Grant	2017 Grant	2016 Grant	FY2019 Total	FY2018 Total
Opening balance	-	3,196,449	2,714,835	5,911,284	5,956,584
Granted during the year	3,876,789	-	-	3,876,789	3,327,515
Lapsed during the year	(119,041)	(91,423)	(1,272,072)	(1,482,536)	(961,702)
Vested during the year (i)	-	-	(1,442,763)	(1,442,763)	(2,411,113)
Closing balance	3,757,748	3,105,026	-	6,862,774	5,911,284

- (i) The 2016 Grant vested to 54.3 per cent based on the vesting assessment performed at 31 March 2019. Participants with vested rights will be issued shares from the employee share plans trust in May 2019.

An expense of \$1.802 million has been recognised for the year ended 31 March 2019 (2018: \$2.847 million) in relation to equity-settled share-based payments.

Note F.4 Contingent liabilities and contingent assets**(a) Rapid Earth Fault Current Limiter (REFCL) penalty regime**

AusNet Services has eight zone substations commissioned with REFCL technology. However, some issues have been identified during the testing of installed REFCLs related to the technical characteristics of existing equipment at various sites. This means that the achievement of the "required capacity" under the regulations is challenging due to the new use of this technology and its interaction with the existing network. While we continue to actively work on resolving these issues, delays are expected to achieving full compliance with the legislative requirements detailed below.

The amended Electricity Safety Act 1998 (Vic) (ESA) enables Energy Safe Victoria (ESV) or the Minister to apply to the Supreme Court of Victoria, seeking the imposition of significant financial penalties if AusNet Services fails to achieve the number of points prescribed by the Regulations throughout the applicable compliance period. The legislation provides that the Court can impose a maximum penalty of \$2 million per point for each station where AusNet Services has not achieved compliance. Accordingly, penalties of up to \$10 million per zone substation can apply if AusNet Services fails to achieve the required capacity during the relevant compliance period. Additionally, the Court can impose a maximum daily penalty of \$5,500 for each day AusNet Services remains non-compliant.

ESV-observed compliance testing was completed in early April 2019. ESV has confirmed that six of these zone substations totalling 23 points have achieved conditional compliance. Conditional compliance means that ESV has accepted that AusNet Services has successfully commissioned the REFCL devices and they are functioning at a level acceptable to ESV, however there are further steps required to meet full compliance. ESV has set a time frame of the beginning of the next bushfire season to complete these further steps.

Notes to the consolidated financial statements

31 March 2019

Note F.4 Contingent liabilities and contingent assets (continued)

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

Two of the zone substations have not achieved conditional compliance, and we have submitted applications to ESV requesting postponement of the commencement of the Tranche 1 Compliance Period until 1 November 2019 in relation to those two zone substations. In the event that ESV does not agree to this request, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services. ESV has sole discretion over whether any postponement is granted, and for how long.

In some instances, full compliance may not be possible without incurring considerable additional expenditure. Given the challenges associated with achieving full compliance and the incremental cost/benefit, AusNet Services is working with relevant parties to explore amending the program requirements through technical exemptions, for which there are specific provisions in the legislation. At present, none of our zone substations have achieved full compliance. If full compliance is not achieved by the beginning of the next bushfire season and ESV does not grant technical exemptions, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services.

(b) Other

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

Other than as listed above, we are not aware of any contingent liabilities or assets as at 31 March 2019 (2018: \$0).

Note F.5 New accounting standards not yet adopted

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which will impact the Group in the period of initial adoption. They were available for early adoption for the Group's annual reporting period beginning 1 April 2018, but have not been applied in preparing this financial report.

AASB 16 Leases

AASB 16 will require the recognition of all leases for a lessee on balance sheet, with limited exceptions for short term and low value leases, thereby removing the off balance sheet treatment currently applied to operating leases. In addition, operating lease rental expenses will be recognised as depreciation and interest expenses. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. The Group has reassessed the classification of its dedicated unregulated customer connection assets.

The Group will adopt AASB 16 from 1 April 2019, applying the modified retrospective transition method. Under this method, a lease liability balance will be recognised based on the remaining outstanding cash flows under the Group's operating leases, discounted to present value. The discount rate used will be our incremental borrowing rate. The impacts are as follows:

- For lessee accounting, a right-of-use asset will be recognised applying the modified retrospective approach which results in the right-of-use asset having the same value as the lease liability. No adjustments to retained profits or restatements of prior periods are made under this method. Operating lease commitments will no longer be disclosed, these will be replaced with disclosures that assess the effect that leases have on the financial position, financial performance and cash flows of the Group.
- For lessor accounting, dedicated unregulated customer connection assets will be de-recognised from property, plant and equipment and reclassified as finance lease receivables.

Notes to the consolidated financial statements

31 March 2019

Note F.5 New accounting standards not yet adopted (continued)

Management has performed a detailed review of lease contracts as at 31 March 2019. Based on this review, the estimated impact of the transition to AASB 16 is summarised below if it had been in effect during the FY2019 year:

Consolidated statement of financial position as at 31 March 2019:

	Before adoption of AASB 16 \$M	Impact of AASB 16 \$M	Adjusted \$M
ASSETS			
Current assets			
Lease assets	-	1.8	1.8
Total current assets	765.4	1.8	767.2
Non-current assets			
Lease asset	-	308.3	308.3
Property, plant and equipment	10,789.9	(210.7)	10,579.2
Total non-current assets	12,050.4	97.6	12,148.0
Total assets	12,815.8	99.4	12,915.2
LIABILITIES			
Current liabilities			
Lease liability	-	2.6	2.6
Total current liabilities	1,404.4	2.6	1,407.0
Non-current liabilities			
Lease liability	-	96.8	96.8
Total non-current liabilities	8,122.3	96.8	8,219.1
Total liabilities	9,526.7	99.4	9,626.1

Consolidated income statement for the year ended 31 March 2019:

	Before adoption of AASB 16 \$M	Impact of AASB 16 \$M	Adjusted \$M
Revenue	1,861.5	(16.4)	1,845.1
Operating lease rental expense	(11.3)	11.3	-
Other costs	(33.6)	2.1	(31.5)
Earnings before interest, tax, depreciation and amortisation	1,134.2	(3.0)	1,131.2
Depreciation and amortisation	(456.4)	(0.6)	(457.0)
Net finance costs	(305.9)	7.9	(298.0)
Profit before income tax	371.9	4.3	376.2
Income tax expense	(118.0)	(1.3)	(119.3)
Profit for the year	253.9	3.0	256.9

Consolidated statement of cash flows for the year ended 31 March 2019:

	Before adoption of AASB 16 \$M	Impact of AASB 16 \$M	Adjusted \$M
Profit for the year	253.9	3.0	256.9
Add back interest, tax, depreciation	880.3	(6.0)	874.3
Net interest paid	(273.4)	7.9	(265.5)
Net cash inflow from operating activities	813.7	4.9	818.6
Proceeds from lease asset	-	1.8	1.8
Repayment of lease liability	-	(6.7)	(6.7)
Net cash (outflow)/inflow from financing activities	(249.6)	(4.9)	(254.5)
Net (decrease)/increase in cash held	(318.8)	-	(318.8)

Notes to the consolidated financial statements

31 March 2019

Note F.6 Events occurring after the balance sheet date

(a) Dividend

Since the end of the financial year, the Directors have approved a final dividend for FY2019 of \$177.5 million (4.86 cents per share) to be paid on 27 June 2019. The final dividend will be 45 per cent franked.

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2019 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- (a) the operations in financial years subsequent to 31 March 2019 of the Group;
- (b) the results of those operations; or
- (c) the state of affairs, in financial years subsequent to 31 March 2019, of the Group.

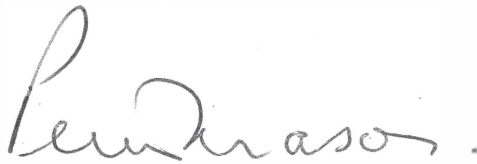
Directors' declaration

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

- (a) the financial statements and notes set out on pages 47 to 105, and the remuneration disclosures that are contained in the Remuneration report set out on pages 22 to 42 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 March 2019 and of its performance for the financial year ended on that date;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Section A; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

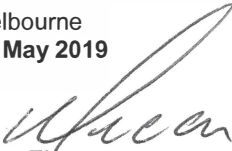
The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.



Peter Mason
Chairman

Melbourne
12 May 2019



Nino Ficca
Managing Director

Melbourne
12 May 2019



Independent Auditor's Report

To the shareholders of AusNet Services Ltd

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of AusNet Services Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 March 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 31 March 2019
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of AusNet Services Ltd (the Company) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Taxation – assessment of uncertain tax position
- Recognition of revenue
- Valuation of non-current assets including property, plant and equipment and intangible assets
- Accounting for project related expenditure
- Valuation and accounting for derivatives

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Taxation – Assessment of uncertain tax position (AUD \$11m)

Refer to Note B.5 Income Tax of the Financial Report.

The key audit matter	How the matter was addressed in our audit
The assessment of uncertain tax position is a key audit matter due to the complexity of relevant tax legislation and the audit effort required in the assessment of the Group's estimates and assumptions. The Group has recognised a tax risk provision in relation to the uncertainty over income tax treatment as set out in note B.5 amounting to \$11m, based on a probability-weighted range of possible outcomes. This provision is recognised in relation to matters subject to an Australian Tax Office (ATO) audit arising from the Pre-Lodgement Compliance Review for the income years 31 March 2016 and 31 March 2017. There is significant effort involved in the audit of the judgemental provisions in respect of uncertain tax positions. The estimates and assumptions applied by the Group may be subsequently challenged by the relevant tax authorities. In assessing this key audit matter, we involved our senior taxation specialists, who have industry-specific experience and detailed knowledge of the complex Australian taxation requirements and the ATO's compliance program activities.	Working with our taxation specialists, our procedures included: • Examining the tax audit notification and other relevant correspondence received from the ATO to understand the current status of the ATO audit; • Attendance at Audit and Risk Management Committee and Tax risk committee meetings in order to understand the analysis and submissions being prepared by the Group; • Considering tax advice obtained by the Group from external tax advisors. We assessed the skills and competencies of the external advisors; • Challenging the appropriateness of the assumptions applied and estimates made in relation to the provision in determining the range of possible outcomes. We challenged these assumptions using our experience and knowledge of ATO audits and compliance programs, and applicable tax laws and regulations; and • Evaluating the uncertain tax position and potential exposures disclosure in the financial statements against accounting standards requirements.

Recognition of revenue (AUD \$1,861.5m)	
Refer to Note B.1 Segment results, Note B.2 Revenue from contracts with customers, Note B.4 Working capital and Section A(c) Change in accounting policies – <i>AASB 15 Revenue from Contracts with Customers</i>	
The key audit matter	How the matter was addressed in our audit
Revenue recognition is a key audit matter due to the nature of the regulatory framework and billing process for the distribution of electricity and gas, and transmission of electricity in Victoria, which adds complexity to our audit approach. In particular: - the application of regulator approved tariff rates, which are used to bill customers for the distribution of electricity and gas, and transmission of electricity in Victoria. The Group's regulatory price determinations promulgated by various regulatory bodies are routinely revised; and - the inherent complexity in the Group's customer billings processes to estimate energy consumed and to determine the relevant tariff rates. In addition, the Group adopted AASB 15 <i>Revenue from Contracts with Customers</i> at 1 April 2018. Given the significance of changes to accounting standards for Revenue, additional audit effort was required in regards to applicable disclosures, and the accounting treatment of commercial contracts.	Our procedures included: - considering the impact of relevant regulatory price determinations on the Group's revenue, including developments in respect of the Australian Energy Regulator's (AER) Rate of Return Guideline effective December 2018 and Review of Regulatory tax approach January 2019; - working with our Information Technology specialists and testing the key controls in the revenue process including the reconciliation between the metering systems and the billing system, and the validation of metering data during billing periods; - evaluating the appropriateness of the Group's accounting policies for revenue recognition against accounting standard requirements; - comparing tariff rates charged to customers to the regulator approved tariff rates for the time the services were provided; - performing sample testing of transmission regulated revenues recorded, comparing relevant amounts to invoices and cash receipts; - performing sample testing of customer contribution revenue recognised, comparing relevant amounts to cash received or the fair value of assets contributed and assessing the appropriateness of the timing of revenue recognition; - testing key controls within the billing system which calculate electricity and gas distribution revenue based on the Group's billing process; - analysing the revenue against historical performance and regulatory price determinations; and - assessing revenue recognition and Group disclosures in accordance with AASB 15 <i>Revenue from Contracts with Customers</i>.

Valuation of non-current assets including property, plant and equipment (AUD \$10,789.9m) and intangible assets (AUD \$542.3m)

Refer to Note C.1 Property, Plant and Equipment, C.2 Intangible Assets, and C.4 Impairment of non-current assets of the Financial Report.

The key audit matter	How the matter was addressed in our audit
The valuation of non-current assets is a key audit matter due to the: • complex nature of the regulatory framework for determining revenue and expenditure applicable to each of the Group's regulated CGU's; • complexity in auditing the forward-looking assumptions applied to the Group's discounted cash flow models for each CGU given the significant assumptions involved. The main assumptions included those relating to terminal values, expected capital and operating expenditure, expected returns from future regulatory determinations, inflation, growth rates and discount rates; and • challenges associated with auditing the Group's long term forecast cash flow model having regard to emerging regulatory change, technology and market changes, and accounting standard requirements.	Our procedures included: • testing the key controls for the cash flow models, including Board approval of key assumptions and the 5 year Financial Plan, which form the basis of cash flow forecasts; • assessing the Group's cash flow model assumptions by: ○ comparing regulated cash flow assumptions to regulatory determinations relevant to the forecast cash flow period; ○ comparing unregulated cash flow assumptions to customer contracts and historical trends; ○ checking the relevant cash flow forecasts to the 5 year Financial Plan; ○ using our industry knowledge and information published by regulatory and other bodies to assess the reasonableness of assumptions and the impact of technology, market and regulatory changes on those assumptions; ○ involving our valuation specialists and assessing the reasonableness of the discount rates by considering comparable market rate information and evaluating the economic assumptions relating to cost of debt and cost of equity; ○ comparing carrying values of regulated CGUs to available market data, such as implied earnings and asset multiples of comparable entities; and ○ for regulated assets, assessing the appropriateness of using a long term cash flow forecast against accounting standard requirements by considering industry practice and the long term nature of the Group's regulated asset base. • assessing the accuracy of previous forecasts of

	the Group to inform the areas on which to focus in the current financial year; • assessing the Group's determination of carrying values of CGUs against the requirements of the accounting standards; • evaluating the Group's sensitivity analysis in respect of the key assumptions, including the identification of areas of estimation uncertainty and reasonably possible changes in key assumptions; and • assessing the appropriateness of the related financial statement disclosures against accounting standard requirements.
--	--

Accounting for project related expenditure (AUD \$924.6m total additions)	
Refer to Note C.1 Property, plant and equipment of the Financial Report.	
The key audit matter	How the matter was addressed in our audit
Project related expenditure is a key audit matter due to the: • significance of capital and operating expenditure, in respect of building and maintaining safe and reliable networks, to both the statement of financial position and income statement; • number of significant ongoing projects including the Rapid Earth Fault Current Limiter (REFCL) program, wind farm assets, and ongoing residential gas connections; and • the complexity in auditing judgements made in respect of: ○ the classification between capitalised and operating expenditure; ○ whether capital projects represent future benefits to the Group; ○ whether indirect costs such as labour and overheads were allocated between capital and operating expenditure in accordance with accounting standards; and ○ the determination of the useful lives of	Our procedures included: • testing key controls for the: ○ authorisation of new projects; ○ monitoring of actual project expenditure against approved budgeted expenditure; and ○ allocation between capital and operating expenditure in accordance with accounting standards. • analysing the indirect costs (e.g. corporate overhead, labour and finance cost) allocation methodology by challenging the underlying assumptions applied in the Activity Based Costing survey and capitalised finance charge models, and comparing the allocation of indirect costs against historical trends. For a sample of projects, our procedures included: • assessing the nature of costs capitalised as to future benefits to the Group in accordance with criteria in the accounting standards; • consideration of individual asset impairments, the impact of asset retirements on depreciation expense and decommissioning provisions; • assessing the actual project spend to budgeted spend by comparing approved budgets to actual

capitalised assets.	costs. This testing was conducted to assess: ○ whether additional costs represent future benefits to the Group capable of capitalisation; and ○ authorisation and allocation of overspend in accordance with Group policy. • evaluating the Group's assessment of the useful life of the capitalised assets, for consistency with the Group's accounting policies, and accounting standard requirements.
---------------------	--

Valuation and accounting for derivatives (AUD \$612.2m assets; AUD \$349.9m liabilities)

Refer to Note D.3 Financial risk management of the Financial Report.

The key audit matter	How the matter was addressed in our audit
Valuation and accounting for derivatives is a key audit matter due to the: • size and complexity of the Group's derivative portfolios, in particular cross currency and interest rate swaps hedging foreign currency and Australian dollar denominated fixed and floating rate debt; • the Group undertaking capital management activities during the year impacting on the Group's derivative portfolios and creating new hedge relationships; and • inherent complexity and judgement in applying accounting principles in the valuation and disclosure of derivatives and related hedging activities. In assessing this key audit matter, we involved our Financial Instrument and Treasury specialists, who have industry specific experience and detailed knowledge of the complex accounting requirements.	With the assistance of our Financial Instrument and Treasury specialists, our procedures included: • evaluating the appropriateness of valuation methodologies and accounting for hedging activities against accounting standard requirements; • assessing and challenging the Group's market inputs and assumptions underlying the valuation of derivatives. We compared market inputs and assumptions to independently sourced market and credit data sets including spot foreign exchange rates, currency interest rate curves, currency basis spreads and credit pricing curves; • evaluating a selection of derivative fair valuations using independent market observable inputs and industry accepted valuation techniques; • evaluating the adequacy of hedge designation documentation for a selection of new hedges in relation to the Group's documented Treasury Risk Management policy and accounting requirements; • obtaining independent confirmation from counterparties with which the Group has borrowings or derivative financial instruments and comparing these to accounting records; and • evaluating the appropriateness of the classification and presentation of derivative financial instruments and related financial risk

	management disclosures against accounting standard requirements.
--	--

Other Information

Other Information is financial and non-financial information in AusNet Services Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Operating and Financial Review, Directors' Report and Remuneration Report. The 2019 Highlights, Chairman's Message and Managing Director's Report are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of AusNet Services Ltd for the year ended 31 March 2019, complies with *Section 300A* of the *Corporations Act 2001*.

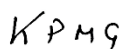
Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

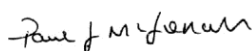
Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 31 March 2019.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



Paul J McDonald

Partner

Melbourne

12 May 2019

GLOSSARY OF TERMS

AASB	Australian Accounting Standards Board
ACN	Australian Company Number
ACCC	Australian Competition and Consumer Commission
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
APES	Accounting Professional & Ethical Standard
AER	Australian Energy Regulator
AGM	Annual General Meeting
AMI	Advanced Metering Infrastructure
ARMC	Audit and Risk Management Committee
ASX or Australian Securities Exchange	ASX Limited or the securities exchange which it operates
ATO	Australian Taxation Office
AUD	Australian dollar
CAGR	Compound annual growth rate
CAM	Cost Allocation Methodology
CFC	Capitalised finance charges
CFV	Common funding vehicle
CGU	Cash-generating unit
CHF	Swiss franc
COAG	Council of Australian Governments
Corporate Restructure	The corporate restructure under which the previous Stapled Entities became wholly owned by AusNet Services Ltd
Corporations Act (Cth)	Corporations Act 2001 (Cth) of Australia
CY	Indicates federal legislation of the Commonwealth of Australia
DRP	Calendar year ended 31 December
DUoS	Dividend Reinvestment Plan
EBITDA	Distribution use of system charge
EDPR	Earnings before interest, tax, depreciation and amortisation
EPS	Electricity Distribution Price Review
ESA	Earnings per share
ESB	Electricity Safety Act 1998 (Vic)
ESC	Energy Security Board
ESCV	Essential Services Commission
ESV	Essential Services Commission Victoria
EUR	Energy Safe Victoria
FAR	Euro
FFO	Fixed annual remuneration
FX	Funds from operations
FY	Foreign exchange
	Financial year ended 31 March

GAAR	Gas Access Arrangement Review
GBP	Pound sterling
GSL	Guaranteed service level payments – penalties for unplanned outages
GST	Goods and services tax
GWh	Gigawatt hour, a unit of energy equal to one billion watt hours
HKD	Hong Kong dollar
HSEQ	Health and Safety, Environment and Quality
HV	High Voltage
ICR	Interest cover ratio
IFRS	International Financial Reporting Standards
ISP	Integrated System Plan
Jemena	SGSP (Australia) Assets Pty Ltd (“SGSPAA”) and its Subsidiaries trading as “Jemena” or “Zinfra Group” (as applicable)
JPY	Japanese yen
KMP	Key management personnel
KPI	Key performance indicator
KPMG	The current external auditors of AusNet Services
kV	Kilovolts, a unit of voltage equal to one thousand volts
LTI	Lost time injury
LTIP	Long term incentive plan
MD	Managing Director
MTI	Medical treatment injury
Moody’s	Moody’s Investors Services, Inc.
NED	Non-Executive Director
NER	National Electricity Rules
NEG	National Energy Guarantee
NEM	National Electricity Market
NGER	National Greenhouse and Energy Reporting Act 2007 (Cth)
NOK	Norwegian kroner
NPAT	Net profit after tax
OCI	Other comprehensive income
PCR	Pre-Lodgement Compliance Review
PJ	Petajoules, a unit of energy equal to one quadrillion (10 ¹⁵) joules
PRs	Performance rights under the LTIP scheme.
Power of Choice	The Australian Energy Market Commission’s competitive framework designed to promote innovation and lead to investment in advanced meters that deliver services valued by consumers at a price they are willing to pay.
RAB	The Regulated Asset Base (RAB) represents the value, as assessed by the AER, of past regulated network investments. This is the value on which the AusNet Services Group can expect to earn a return over the economic life of its network assets.
REFCL	Rapid Earth Fault Current Limiter, a bushfire mitigation technology

R&CAB	Regulated and Contracted Asset Base. Includes the RAB as well as Mondo's contestable transmission assets, for example, the Victorian desalination contract.
ROIC	Return on invested capital
RES	Regulated Energy Services
RIFR	Recordable injury frequency rate
ROE	Return on equity
SGD	Singapore dollar
SGX or SGX-ST	Singapore Exchange Securities Trading Limited or the securities exchange which it operates
Singapore Power Group	Singapore Power Limited and its Subsidiaries
SPI	Singapore Power International Pte Ltd
Standard & Poor's	Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc.
State Grid	State Grid Corporation of China
Stapled Group	The former corporate structure of AusNet Services comprising AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd and AusNet Services Finance Trust as a combined entity.
STI	Short term incentive
STPIS	Service Target Performance Incentive Scheme, an incentive revenue scheme in the electricity distribution business.
Temasek	Temasek Holdings (Private) Ltd
TRR	Transmission Revenue Reset
TSR	Total Shareholder Return
TUoS	Transmission use of system
(Vic)	Indicates state legislation of the State of Victoria
UK	United Kingdom
USA	United States of America
USD	United States dollar
WACC	Weighted average cost of capital
VEDC	Victorian Electricity Distribution Code
Victorian State Government	The government of the State of Victoria
VWAP	Volume-weighted average price, a trading benchmark calculated by adding up the dollars traded for every transaction (price multiplied by number of shares traded) and then dividing by the total shares traded for the day.

AusNet Services Ltd
ACN 603 317 559

Interim Financial Report

For the financial period ended 30 September 2018

Contents	Page
Directors' report	3
Lead auditor's independence declaration	10
Consolidated interim income statement	11
Consolidated interim statement of comprehensive income	12
Consolidated interim statement of financial position	13
Consolidated interim statement of changes in equity	14
Consolidated interim statement of cash flows	16
Condensed notes to the consolidated interim financial statements	17
Directors' declaration	31
Independent auditor's report	32

This interim financial report covers the consolidated entity consisting of AusNet Services Ltd and its subsidiaries. The interim financial report is presented in Australian dollars.

AusNet Services Ltd is a company limited by shares, incorporated and domiciled in Victoria, Australia. Its registered office and principal place of business is:

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of the Group for the year ended 31 March 2018 and any public announcements made by AusNet Services Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth).

The interim financial report was authorised for issue by the Directors on 13 November 2018.

Directors' Report

Introduction

The Directors of AusNet Services Ltd present their report on the general purpose interim financial report of the consolidated entity for the financial period ended 30 September 2018.

The financial report is for AusNet Services Ltd and its controlled entities (we, us, our, AusNet Services or the Group).

Our Board of Directors

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

Non-executive Directors

Peter **Mason** (Chairman)

Alan **Chan** Heng Loon (appointed 28 May 2018)

Ralph **Craven**

Sally **Farrier**

Ho Tian Yee (retired 28 May 2018)

Li Lequan (appointed 1 October 2018)

Robert **Milliner**

Nora **Scheinkestel**

Sun Jianxing (resigned 1 October 2018)

Tan Chee Meng

Executive Director

Nino **Ficca** – *Managing Director*

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

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

\$M	30 September 2018	30 September 2017	Movement	%
Revenue	995.8	1,068.7	(72.9)	(6.8)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	631.6	647.4	(15.8)	(2.4)
Net profit after tax	181.5	203.7	(22.2)	(10.9)
Capital expenditure	462.4	321.0	141.4	44.0

Revenue declined \$72.9 million period-on-period. Of this decrease, \$27.3 million relates to the easement tax pass-through that impacts both revenue and operating expenditure in the electricity transmission network as a result of a change in accounting standards in relation to revenue recognition. This change in accounting standard has been applied prospectively from 1 April 2018. Excluding this accounting change revenue declined \$45.6 million.

Regulated revenue decreased in electricity distribution due to reduced incentive revenues (\$21.7 million in prior period, zero in the current period due to lower reliability performance in CY2016 as there is a two-year lag in receiving incentive revenues) and metering revenue hand back of previously received excess expenditures disallowed by the Australian Energy Regulator (AER). In gas distribution, revenues decreased due to the gas tariff regulatory price path. Commercial Energy Services revenues also reduced \$18.5 million as a result of exiting of numerous service contracts in the prior period as part of a strategic refocus away from providing certain maintenance services.

Operating expenses (excluding easement tax) decreased \$29.8 million, \$18.3 million was in Commercial Energy Services as a result of reduced costs following contract rationalisation and \$11.5 million across the three regulated businesses as a result of continuation of our cost efficiency program (net of wage and contract price increases).

In addition, net finance costs increased \$13.8 million as a result of hedge accounting losses and higher interest costs due to higher levels of debt and higher capital expenditure.

Capital expenditure increased as a result of new wind farm connections, which added \$69.2 million of capital expenditure in the Commercial Energy Services business (the resulting revenues will not commence until these projects are completed over the next 12 to 18 months) as well as \$14.1 million of terminal station interface works in the electricity transmission business. In addition, the Rapid Earth Fault Current Limiter (REFCL) program and higher customer connections have led to increased electricity distribution capital expenditure.

Directors' Report (continued)**Interim review of operations (continued)****Electricity transmission business**

	30 September 2018	30 September 2017	Movement	%
Segment revenue (\$M)	311.9	325.3	(13.4)	(4.1)
Segment result - EBITDA (\$M)	201.5	186.4	15.1	8.1
Capital expenditure (\$M)	98.1	69.0	29.1	42.2

Transmission revenues decreased primarily as a result of the \$27.3 million reduction in easement tax (pass-through revenue – no impact on EBITDA). While the quantum of easement tax for FY19 will be the same as FY18, this half year impact is due to changes in revenue recognition accounting standards requiring easement tax to have a linear profile for the financial year. Offsetting this revenue decrease is higher project revenues associated with transmission tower relocations.

Expenses decreased \$1.2 million (excluding the \$27.3 million decrease in easement tax) as a result of the continuing cost efficiency program.

Capital expenditure increased primarily as a result of \$14.1 million of wind farm connection interface works (nil in the prior comparative period) as well as an increase in excluded projects (primarily customer initiated relocations). Major terminal station rebuilds at Richmond and West Melbourne make up \$25.8 million of the spend, consistent with the prior comparative period.

Electricity distribution business

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

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

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

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

Future revenue impacts

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

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

Directors' Report (continued)**Interim review of operations (continued)****Gas distribution business**

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

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

Operating expenses were positively impacted by our cost efficiency program.

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

Commercial Energy Services

	30 September 2018	30 September 2017	Movement	%
Segment revenue (\$M)	92.3	110.8	(18.5)	(16.7)
Segment result - EBITDA (\$M)	30.8	31.0	(0.2)	(0.6)
EBITDA Margin (%)	33.4	28.0	5.4	19.3
Capital expenditure (\$M)	91.4	10.7	80.7	754.2

The Commercial Energy Services business consists of contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. Contracted infrastructure asset services own and operate a portfolio of assets that fall outside the regulated asset base (the largest of which is the Wonthaggi desalination plant transmission connection). The investments are made through directly negotiated agreements, pursuant to which AusNet Services typically receives revenue over the contract period in exchange for the infrastructure and operational services provided.

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

Revenues decreased \$18.5 million from the comparative period, which included several contracts that were exited in the prior year as part of a strategic refocus away from providing certain maintenance services. EBITDA margins have increased as a result of the refocus.

Capex in the current period primarily relates to four new wind farm connections that commenced construction in the current period. The prior period included minimal capex in relation to wind farms (\$3.0 million for Salt Creek, which was energised in June 2018).

Directors' Report (continued)

Financial position

Total equity of the Group was \$3,537.5 million as at 30 September 2018, a decrease of \$18.5 million compared to 31 March 2018. The net profit recognised for the six-month period has been offset by dividends paid as well as a \$33.9 million reduction in retained earnings due to the transition impact of the new revenue recognition accounting standard.

Our current liabilities exceed current assets by \$274.4 million at 30 September 2018. This includes \$451.4 million of current borrowings maturing in April 2019. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 30 September 2018 we have available a total of \$700 million of undrawn but committed non-current bank debt facilities, \$70 million of undrawn but committed current bank debt facilities and \$162.9 million of cash. The next maturity is a \$283.2 million Swiss franc bond due in 2019 (face value).

Capital management

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

Debt raising

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

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

Dividends

The final 2018 dividend paid to shareholders on 28 June 2018 was as follows:

	Cents per share	Total dividend \$M
Unfranked dividend	4.62	166.8

Since the end of the financial period, the Directors have approved an interim dividend for 2018 of \$175.8 million (4.86 cents per share) to be paid on 20 December 2018, franked to 40 per cent. The AusNet Services Ltd dividend reinvestment plan will be in operation for the FY2019 interim dividend, with shares allocated at a two percent discount to the volume weighted average price.

Directors' Report (continued)

Material risks and uncertainties

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

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

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

Industry and regulatory risks update

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

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

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

Rapid Earth Fault Current Limiter (REFCL) update

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

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

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

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

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

Directors' Report (continued)

Environmental regulation and climate change

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

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

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial period

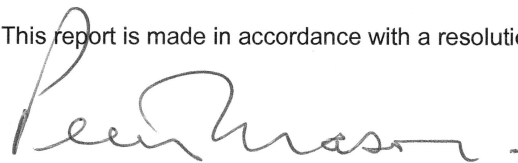
Dividend

Since the end of the financial year, the Directors have approved an interim dividend for 2018 of \$175.8 million (4.86 cents per share) to be paid on 20 December 2018. The AusNet Services Ltd dividend reinvestment plan will be in operation for the FY2019 interim dividend, with shares allocated at a two percent discount to the volume weighted average price.

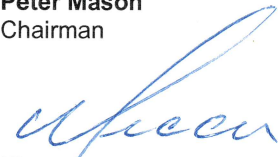
Rounding of amounts

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

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



Peter Mason
Chairman



Nino Ficca
Managing Director

Melbourne
13 November 2018



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of AusNet Services Ltd

I declare that, to the best of my knowledge and belief, in relation to the review of AusNet Services Ltd for the half-year ended 30 September 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Paul J McDonald

Partner

Melbourne

13 November 2018

Consolidated interim income statement

For the period ended 30 September 2018

		30 September	30 September
		2018	2017
	Notes	\$M	\$M
Revenue	B.1	995.8	1,068.7
Use of system and associated charges		(47.6)	(49.1)
Easement and land tax		(71.0)	(98.3)
Employee benefit expenses		(94.4)	(104.0)
External maintenance and contractors services		(59.2)	(76.0)
Materials		(14.4)	(18.1)
Information technology and communication costs		(24.7)	(29.0)
Operating lease rental expenses		(5.2)	(7.0)
Administrative expenses		(16.4)	(16.1)
Disposal of property plant and equipment		(11.5)	(5.1)
Other costs		(19.8)	(18.6)
Total expenses excluding depreciation, amortisation, interest and tax		(364.2)	(421.3)
Earnings before interest, tax, depreciation and amortisation		631.6	647.4
Depreciation and amortisation		(222.6)	(220.3)
Profit from operating activities		409.0	427.1
Finance income	D.2	11.2	8.1
Finance costs	D.2	(160.6)	(143.7)
Net finance costs		(149.4)	(135.6)
Profit before income tax		259.6	291.5
Income tax expense		(78.1)	(87.8)
Profit for the period		181.5	203.7
Basic and diluted earnings per share (cents per share)	B.4	5.03	5.65

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

Consolidated interim statement of comprehensive income

For the period ended 30 September 2018

	30 September 2018 \$M	30 September 2017 \$M
Profit for the period	181.5	203.7
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	5.5	(2.2)
Income tax on movement in defined benefit fund	(1.6)	0.7
	3.9	(1.5)
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	(3.8)	(11.8)
Income tax on movement in hedge reserve	2.4	5.2
	(1.4)	(6.6)
Other comprehensive income for the period, net of income tax	2.5	(8.1)
Total comprehensive income for the period	184.0	195.6

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

Consolidated interim statement of financial position

As at 30 September 2018

	Notes	30 September 2018 \$M	31 March 2018 \$M
ASSETS			
Current assets			
Cash and cash equivalents		162.9	658.2
Receivables		241.4	183.0
Desalination licence receivable		12.2	12.3
Inventories		45.7	42.3
Derivative financial instruments		107.1	0.9
Other assets		52.5	24.5
Total current assets		621.8	921.2
Non-current assets			
Inventories		18.3	18.9
Property, plant and equipment	C.1	10,525.0	10,291.8
Intangible assets	C.2	543.7	550.1
Desalination licence receivable		176.4	180.8
Derivative financial instruments		419.4	501.6
Other assets		61.0	52.9
Total non-current assets		11,743.8	11,596.1
Total assets		12,365.6	12,517.3
LIABILITIES			
Current liabilities			
Payables and other liabilities		312.0	280.4
Provisions		83.6	93.3
Borrowings	D.1	451.4	465.4
Derivative financial instruments		0.8	77.8
Current tax payable		48.4	3.6
Total current liabilities		896.2	920.5
Non-current liabilities			
Deferred revenue		153.1	87.1
Provisions		52.7	49.6
Borrowings	D.1	6,968.0	7,099.7
Derivative financial instruments		139.2	192.9
Deferred tax liabilities		618.9	611.5
Total non-current liabilities		7,931.9	8,040.8
Total liabilities		8,828.1	8,961.3
Net assets		3,537.5	3,556.0
EQUITY			
Contributed equity	D.3	5,163.6	5,162.5
Reserves		(1,564.6)	(1,560.3)
Retained profits		1,033.6	1,048.9
Other equity		(1,095.1)	(1,095.1)
Total equity		3,537.5	3,556.0

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

Consolidated interim statement of changes in equity

For the period ended 30 September 2018

	Notes	Share capital \$M	Restructure reserve (i) \$M	Hedge reserve (ii) \$M	Revaluation Reserve (iii) \$M	Asset Share based payment reserve (iv) \$M	Other equity component (v) \$M	Retained profits \$M	Total equity \$M
30 September 2018									
Balance as at 1 April 2018		5,162.5	(1,501.9)	(117.1)	51.4	7.3	(1,095.1)	1,048.9	3,556.0
Impact of change in accounting policy	A	-	-	-	-	-	-	(33.9)	(33.9)
Adjusted balance as at 1 April 2018		5,162.5	(1,501.9)	(117.1)	51.4	7.3	(1,095.1)	1,015.0	3,522.1
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	181.5	181.5
Other comprehensive income		-	-	(1.4)	-	-	-	3.9	2.5
Total comprehensive income for the period		-	-	(1.4)	-	-	-	185.4	184.0
Transactions with owners, recorded directly in equity									
Dividends paid	D.4	-	-	-	-	-	-	(166.8)	(166.8)
Share based payment reserve	D.3	4.2	-	-	-	(2.9)	-	-	1.3
Shares purchased as part of employee share plans	D.3	(3.1)	-	-	-	-	-	-	(3.1)
Total transactions with owners		1.1	-	-	-	(2.9)	-	(166.8)	(168.6)
Balance as at 30 September 2018		5,163.6	(1,501.9)	(118.5)	51.4	4.4	(1,095.1)	1,033.6	3,537.5
30 September 2017									
Balance as at 1 April 2017		5,153.2	(1,501.9)	(17.8)	51.4	3.8	(1,095.1)	1,104.8	3,698.4
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	203.7	203.7
Other comprehensive income		-	-	(6.6)	-	-	-	(1.5)	(8.1)
Total comprehensive income for the period		-	-	(6.6)	-	-	-	202.2	195.6
Transactions with owners, recorded directly in equity									
Dividends paid	D.4	-	-	-	-	-	-	(194.6)	(194.6)
Dividend Reinvestment Plan (net of transaction costs)	D.4	12.2	-	-	-	-	-	-	12.2
Share based payment reserve		-	-	-	-	1.5	-	-	1.5
Shares purchased as part of employee share plans	D.3	(10.3)	-	-	-	-	-	-	(10.3)
Total transactions with owners		1.9	-	-	-	1.5	-	(194.6)	(191.2)
Balance as at 30 September 2017		5,155.1	(1,501.9)	(24.4)	51.4	5.3	(1,095.1)	1,112.4	3,702.8

Consolidated interim statement of changes in equity

For the period ended 30 September 2018

- (i) Under the corporate restructure, AusNet Services Ltd shares were issued to shareholders in return for their stapled securities. AusNet Services Ltd share capital was measured at fair value on the date of the transaction, being the market capitalisation of the AusNet Services Stapled Group on the date of implementation of 18 June 2015 (\$4,957.7 million). The difference between the contributed equity of AusNet Services Ltd and the pre-restructure contributed equity of the Stapled Group at the date of the transaction was recognised as a restructure reserve.
- (ii) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset.
- (iii) This amount represents the fair value uplift to the assets of the AusNet Services Transmission Group on the date that the previous Stapled Group was formed. The fair value uplift was applied to easements which are considered to have an indefinite useful life. The amount was carried into the asset revaluation reserve of the Group following the corporate restructure on 18 June 2015.
- (iv) The share based payment reserve represents the tax-effected fair value of the performance rights granted under the 2016-2018 tranches of the long-term incentive plan. This takes into account estimated vesting and service conditions as at 30 September 2018.
- (v) The other equity component results from the application of reverse acquisition accounting and represents the difference between the net assets of AusNet Services (Transmission) Ltd and AusNet Finance Pty Ltd and the purchase price paid by the legal acquirer, AusNet Services (Transmission) Ltd on 20 October 2005.

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

Consolidated interim statement of cash flows

For the period ended 30 September 2018

	30 September 2018 \$M	30 September 2017 \$M
Cash flows from operating activities		
Profit for the period	181.5	203.7
Add back interest, tax, depreciation	450.1	443.7
Other non-cash items	(9.1)	0.2
Working capital movement	(61.3)	(60.7)
Income tax (paid)/refunded	(10.7)	10.5
Net interest paid	(141.4)	(141.7)
Net cash inflow from operating activities	409.1	455.7
Cash flows from investing activities		
Payments for property, plant and equipment (i)	(427.4)	(344.7)
Proceeds from sale of property, plant and equipment	0.6	0.3
Receipts from desalination licence receivable	4.4	4.4
Net cash outflow from investing activities	(422.4)	(340.0)
Cash flows from financing activities		
Payments for employee share plans	(3.1)	(10.3)
Dividends paid (ii)	(166.8)	(182.4)
Proceeds from borrowings	225.4	583.5
Repayments of borrowings	(537.5)	(820.5)
Net cash outflow from financing activities	(482.0)	(429.7)
Net decrease in cash held	(495.3)	(314.0)
Cash and cash equivalents at beginning of the period	658.2	328.8
Cash and cash equivalents at the end of the period	162.9	14.8

- (i) Net finance costs include a credit of \$11.9 million (2017: \$7.9 million) for capitalised finance charges which is included in payments for property, plant and equipment.
- (ii) There was no Dividend Reinvestment Plan (DRP) for the period ended 30 September 2018. In the period ended 30 September 2017, the amounts shown represents dividends paid of \$194.6 million (including special dividend of \$36.0 million) offset by proceeds from the DRP net of transactions costs of \$12.2 million.

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

Condensed notes to the consolidated interim financial statements

30 September 2018

Contents

Section A	Overview	18
Section B	Operating our business	21
Note B.1	Segment information	21
Note B.2	Revenue from contracts with customers	23
Note B.3	Seasonality of operations	24
Note B.4	Earnings per share	24
Section C	Investing in our business	25
Note C.1	Property, plant and equipment	25
Note C.2	Intangible assets	26
Note C.3	Capital expenditure	26
Section D	Financing our business	27
Note D.1	Borrowings	27
Note D.2	Net finance costs	28
Note D.3	Equity	28
Note D.4	Dividends	29
Section E	Other disclosures	30
Note E.1	Contingent liabilities and contingent assets	30
Note E.2	Events occurring after the balance sheet date	30

Condensed notes to the consolidated interim financial statements

30 September 2018

Section A Overview

(a) Basis of preparation

The consolidated general purpose interim financial report, prepared by a for-profit entity for the period ended 30 September 2018, represents the consolidated financial statements of the Group, which comprises AusNet Services Ltd and its subsidiaries. The Group is also referred to as we, us, our or AusNet Services.

The financial report has been prepared:

- in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth);
- on a going concern basis, which contemplates the continuity of normal trading operations. The Group's current liabilities exceed current assets by \$274.4 million at 30 September 2018 primarily due to \$451.4 million of current borrowings. The Group is, and is expected to continue trading profitably, generating positive operating cash flows, and successfully refinancing maturing debt. In addition, at 30 September 2018 we have available a total of \$700 million of undrawn but committed non-current bank debt facilities, \$70 million of undrawn but committed current bank debt facilities and \$162.9 million of cash. The next maturity is a \$283.2 million Swiss franc bond due in April 2019 (face value);
- under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value; and
- with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Instrument 2016/191 issued by the Australian Securities and Investments Commission.

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of the Group for the year ended 31 March 2018 and any public announcements made by AusNet Services Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act*.

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

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

Except for the adoption of AASB 15 *Revenue from Contracts with Customers*, the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2018. For the period ended 30 September 2017, we have amended some categories of expenses to be consistent with how they are reviewed and analysed for internal management purposes.

(b) Critical accounting estimates and judgements

The preparation of the financial report requires management to make estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

In preparing this consolidated interim financial report, the key sources of estimation uncertainty were the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2018. Some of the critical judgements and estimates used by management in applying the Group's accounting policies for the period ended 30 September 2018 have been updated to reflect the latest available information. Except for the adoption of AASB 15, these updates have not had a significant impact on the financial performance or financial position of the Group as at and for the period ended 30 September 2018.

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

Condensed notes to the consolidated interim financial statements

30 September 2018

Section A Overview (continued)

(c) Change in accounting policies – AASB 15 Revenue from Contracts with Customers

AASB 15 was adopted from 1 April 2018, using the cumulative effect transition method. The cumulative effect transition method allows opening balances of the current period to be adjusted for transition to the new standard. This disclosure shows the impact of AASB 15 on the current period's financial statements.

The following adjustments arose as a result of the transition to AASB 15:

Negotiated and unregulated transmission contracts

Management performed a review of significant contracts which resulted in a change to negotiated and unregulated transmission connection contracts. The net impact was a reduction of \$1.0 million on the profit after tax for the period ended 30 September 2018.

The cumulative transition adjustment was a reduction in retained earnings of \$33.9 million (after tax, represented by a \$48.4 million increase in deferred revenue and a \$14.5 million decrease in deferred tax liabilities) as at 1 April 2018. The billing schedules in most of these contracts recover higher amounts in the first half of the contract (which are generally 30 year contracts). Under AASB 15, these contracts are considered to have one performance obligation settled evenly over time, being the provision of connection services to the customer. As such, revenue is required to be recognised evenly over the contract term. This results in a deferral of revenue for most of these contracts in the first half of their contract term.

Easement tax revenue

In the period ended 30 September 2018 AusNet Services paid easement tax of \$95.5 million (total annual assessment \$136.4 million). As a result of the transition to AASB 15, management determined that the easement tax expense (and pass-through revenue) for the period should represent 50% of the annual charge as it is not a separate performance obligation to our other regulated transmission revenue which is recognised over time. This has resulted in the deferral of \$27.3 million of revenue and the prepayment of \$27.3 million of easement tax expense in the consolidated interim statement of financial position at 30 September 2018. There is no impact on net profit for the period.

The following tables summarise the impact of adopting AASB 15 on the Group's consolidated interim statement of financial position as at 30 September 2018 and its consolidated interim income statement for the period then ended for each of the line items affected. There was no material impact on the Group's interim statement of cash flows for the period ended 30 September 2018.

Condensed notes to the consolidated interim financial statements

30 September 2018

Section A Overview (continued)**(c) Change in accounting policies – AASB 15 *Revenue from Contracts with Customers* (continued)****Consolidated statement of financial position as at 30 September 2018**

	Before adoption of AASB 15 \$M	Impact of AASB 15 \$M	Reported \$M
ASSETS			
Current assets			
Other assets	25.2	27.3	52.5
Total current assets	594.5	27.3	621.8
Total assets	12,338.3	27.3	12,365.6
LIABILITIES			
Current liabilities			
Payables and other liabilities	284.2	27.8 ¹	312.0
Total current liabilities	868.4	27.8	896.2
Non-current liabilities			
Deferred revenue	103.8	49.3 ¹	153.1
Deferred tax liabilities	633.8	(14.9)	618.9
Total non-current liabilities	7,897.5	34.4	7,931.9
Total liabilities	8,765.9	62.2	8,828.1
EQUITY			
Retained profits	1,068.5	(34.9) ²	1,033.6
Total equity	3,572.4	(34.9)	3,537.5

1 – Includes AASB 15 transition adjustment of \$48.4 million (\$47.5 million non-current, \$0.9 million current), \$1.4 million of FY2019 deferrals related to negotiated and unregulated transmission contracts, and \$27.3 million related to easement tax revenue deferral.

2 – Includes transition adjustment of \$33.9 million and \$1.0 million of FY2019 deferrals.

Consolidated income statement for the period ended 30 September 2018

	Before adoption of AASB 15 \$M	Impact of AASB 15 \$M	Reported \$M
Revenue	1,024.5	(28.7)	995.8
Easement and land tax	(98.3)	27.3	(71.0)
Profit before income tax	261.0	(1.4)	259.6
Income tax expense	(78.5)	0.4	(78.1)
Profit for the period	182.5	(1.0)	181.5

Condensed notes to the consolidated interim financial statements

30 September 2018

Section B Operating our business

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

Note B.1 Segment information

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

(a) Description of reportable segments

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

(i) Electricity distribution

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

(ii) Gas distribution

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

(iii) Electricity transmission

We own and manage the vast majority of the electricity transmission network in Victoria. Our electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power generators to electricity distributors around Victoria forming the backbone of the Victorian electricity network. We charge the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network. The electricity transmission segment does not purchase or sell electricity.

(iv) Commercial Energy Services

The Commercial Energy Services business consists of contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. Contracted infrastructure asset services own and operate a portfolio of assets that fall outside the regulated asset base (the largest of which is the Wonthaggi desalination plant transmission connection). The investments are made through directly negotiated agreements, pursuant to which AusNet Services typically receives revenue over the contract period in exchange for the infrastructure and operational services provided. The customers of this business primarily operate in the utility, renewables and essential infrastructure sectors of electricity, water, gas and rail.

Condensed notes to the consolidated interim financial statements

30 September 2018

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

	Electricity distribution	Gas distribution	Electricity transmission	Commercial Energy Services	Inter-segment eliminations	Consolidated
	\$M	\$M	\$M	\$M	\$M	\$M
30 September 2018						
Regulated revenue	408.9	143.0	270.1	-	(5.0)	817.0
Excluded transmission revenue	-	-	39.1	-	-	39.1
Unregulated infrastructure revenue	-	-	-	26.1	-	26.1
Customer contributions	32.5	4.8	-	-	-	37.3
Service revenue	-	-	-	58.3	(2.4)	55.9
Other revenue	5.0	4.8	2.7	7.9	-	20.4
Total segment revenue	446.4	152.6	311.9	92.3	(7.4)	995.8
Segment expense before depreciation and amortisation	(169.2)	(30.5)	(110.4)	(61.5)	7.4	(364.2)
Segment result - EBITDA (i)	277.2	122.1	201.5	30.8	-	631.6
Depreciation and amortisation	(140.5)	(24.8)	(46.8)	(10.5)	-	(222.6)
Net finance costs						(149.4)
Income tax expense						(78.1)
Profit for the period						181.5
30 September 2017						
Regulated revenue	452.9	158.4	298.5	-	(4.7)	905.1
Excluded transmission revenue	-	-	25.7	-	-	25.7
Unregulated infrastructure revenue	-	-	-	25.0	-	25.0
Customer contributions	16.4	9.0	-	-	-	25.4
Service revenue	-	-	-	76.4	(2.8)	73.6
Other revenue	4.2	0.2	1.1	9.4	(1.0)	13.9
Total segment revenue	473.5	167.6	325.3	110.8	(8.5)	1,068.7
Segment expense before depreciation and amortisation	(181.1)	(30.0)	(138.9)	(79.8)	8.5	(421.3)
Segment result - EBITDA (i)	292.4	137.6	186.4	31.0	-	647.4
Depreciation and amortisation	(135.4)	(22.7)	(53.0)	(9.2)	-	(220.3)
Net finance costs						(135.6)
Income tax expense						(87.8)
Profit for the period						203.7

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

(c) Notes to and forming part of the segment information*(i) Accounting policies*

Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. The Cost Allocation Methodology as approved by the Australian Energy Regulator (AER) is used as the basis for allocating expenses to the relevant segment.

(ii) Inter-segment eliminations

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

Condensed notes to the consolidated interim financial statements

30 September 2018

Note B.2 Revenue from contracts with customers**Disaggregated revenue**

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

30 September 2018	Electricity distribution	Gas distribution	Electricity transmission	Commercial Energy Services	Inter-segment eliminations	Total
	\$M	\$M	\$M	\$M	\$M	\$M
Timing of recognition						
At a point in time	46.2	13.5	2.5	47.0	-	109.2
Over time	399.7	139.1	309.2	45.3	(7.4)	885.9
Revenue from contracts with customers	445.9	152.6	311.7	92.3	(7.4)	995.1
Other income not in scope of AASB 15						
Lease income	0.1	-	0.2	-	-	0.3
Income from government grants	0.4	-	-	-	-	0.4
Total segment revenue	446.4	152.6	311.9	92.3	(7.4)	995.8

Condensed notes to the consolidated interim financial statements30 September 2018

Note B.3 Seasonality of operations**(a) Electricity distribution**

Electricity distribution volumes display some seasonal variation with increased volumes in winter due to higher demand for heating and increased volumes in summer as a result of higher demand for air conditioning. However, the impact of seasonal volume variation on electricity distribution revenue is limited due to the tariff structure, which includes a fixed component and a contract demand capacity component. The high proportion of process related consumption of commercial and industrial customers also limits seasonal variation in electricity distribution revenue. Electricity distribution revenue operates under a revenue cap, with the amount of total revenue fixed over the regulatory reset period. Any under/over recovery in a particular calendar year will be built into subsequent years' tariffs.

(b) Gas distribution

Gas distribution volume is seasonal with a distinct winter peak due to gas demand for heating. A component of the seasonal revenue variation is mitigated due to the tariff structure, which includes a fixed component and a demand capacity-based component.

(c) Electricity transmission

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

(d) Commercial Energy Services

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

Note B.4 Earnings per share**(a) Basic earnings per share**

		30 September 2018	30 September 2017
	Profit attributable to the ordinary shareholders of AusNet Services (\$M)	181.5	203.7
divided by	Weighted average number of shares (million)	3,609.0	3,603.7
equals	Basic earnings per share (cents)	5.03	5.65

(b) Diluted earnings per share

There were no factors causing a dilution of either the profit or loss attributable to ordinary shareholders or the weighted average number of ordinary shares outstanding. We have the option to issue equity to meet vested share rights to employees, however we are currently purchasing these on market. Accordingly, basic and diluted earnings per share are the same.

Condensed notes to the consolidated interim financial statements

30 September 2018

Section C Investing in our business

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

Note C.1 Property, plant and equipment

	Freehold land \$M	Buildings \$M	Easements \$M	Transmission network \$M	Electricity distribution network \$M	Gas distribution network \$M	Other plant and equipment \$M	Capital work in progress \$M	Total \$M
30 September 2018									
Cost	253.5	508.2	1,223.2	3,003.7	5,552.8	2,051.7	658.1	645.8	13,897.0
Accumulated depreciation	-	(97.1)	-	(833.8)	(1,486.8)	(469.7)	(484.6)	-	(3,372.0)
Carrying amount as at 30 September 2018	253.5	411.1	1,223.2	2,169.9	4,066.0	1,582.0	173.5	645.8	10,525.0
31 March 2018									
Cost	253.5	521.5	1,223.4	2,899.3	5,414.0	2,012.9	677.7	529.2	13,531.5
Accumulated depreciation	-	(98.5)	-	(795.0)	(1,406.9)	(455.6)	(483.7)	-	(3,239.7)
Carrying amount as at 31 March 2018	253.5	423.0	1,223.4	2,104.3	4,007.1	1,557.3	194.0	529.2	10,291.8

Condensed notes to the consolidated interim financial statements

30 September 2018

Note C.2 Intangible assets

	Distribution licences \$M	Goodwill \$M	Software \$M	Other intangible assets \$M	Total \$M
30 September 2018					
Cost	354.5	35.8	565.8	5.5	961.6
Accumulated amortisation	-	-	(412.8)	(5.1)	(417.9)
Carrying amount as at 30 September 2018	354.5	35.8	153.0	0.4	543.7
31 March 2018					
Cost	354.5	35.8	545.8	5.5	941.6
Accumulated amortisation	-	-	(386.7)	(4.8)	(391.5)
Carrying amount as at 31 March 2018	354.5	35.8	159.1	0.7	550.1

Note C.3 Capital expenditure

	30 September 2018 \$M	30 September 2017 \$M
Electricity distribution	224.3	196.7
Gas distribution	48.6	44.6
Electricity transmission	98.1	69.0
Commercial energy services	91.4	10.7
Total capital expenditure	462.4	321.0

Condensed notes to the consolidated interim financial statements

30 September 2018

Section D Financing our business

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

Note D.1 Borrowings

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

(i) The carrying value of foreign currency borrowings are translated at spot rate as at balance date. The foreign currency risk associated with these borrowings is hedged through the use of cross-currency swaps.

(ii) The first call date for hybrid securities is September 2021.

AusNet Services had \$700 million of undrawn but committed non-current bank debt facilities, \$70 million of undrawn but committed current bank debt facilities and \$162.9 million cash on deposit as at 30 September 2018. AusNet Services has an A- credit rating from Standard and Poor's and an A3 credit rating from Moody's Investor Services.

(a) Fair value measurement

Derivative financial instruments are recognised at fair value and are measured in accordance with generally accepted pricing models based on discounted cash flow analysis. Appropriate transaction costs are included in the determination of net fair value. These pricing models use significant market observable data as well as market corroboration based on active quotes. As such, fair value measurements are deemed level two within the fair value hierarchy as per AASB 13 *Fair Value Measurement*. The Group does not have any financial instruments which would be categorised as either level one or three of the fair value hierarchy.

The Group also has a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings, the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 30 September 2018.

Condensed notes to the consolidated interim financial statements

30 September 2018

Note D.1 Borrowings (continued)**(a) Fair value measurement (continued)**

The fair value of total borrowings as at 30 September 2018 is \$7,983.4 million (31 March 2018: \$8,152.3 million). This fair value measurement uses significant market observable data, and therefore is a level two measurement within the fair value hierarchy as per AASB 13. The valuation techniques applied are consistent with those applied in the consolidated financial report as at and for the year ended 31 March 2018.

Note D.2 Net finance costs

	30 September 2018 \$M	30 September 2017 \$M
Finance income		
Interest income	5.3	1.9
Return on desalination licence receivable	5.9	6.2
Total finance income	11.2	8.1
Finance costs		
Interest expense	163.2	153.9
Other finance charges - cash	1.6	1.5
Other finance charges - non-cash	2.7	1.2
Loss/(gain) on accounting for hedge relationships	3.5	(5.6)
Unwind of discount on provisions	2.3	1.2
Defined benefit net interest income	(0.8)	(0.6)
Capitalised finance charges	(11.9)	(7.9)
Total finance costs	160.6	143.7
Net finance costs	149.4	135.6

Note D.3 Equity

	30 September 2018 \$M	31 March 2018 \$M
Contributed equity		
Ordinary share capital (a)	5,172.8	5,172.8
Shares held by employee share plans trust (b)	(9.2)	(10.3)
Total contributed equity	5,163.6	5,162.5

(a) Movements in ordinary share capital

Date	Details	Notes	Number of shares	\$M
1 April 2018	Opening balance		3,614,346,765	5,172.8
30 September 2018	Closing balance		3,614,346,765	5,172.8
1 April 2017	Opening balance		3,603,155,012	5,153.2
27 June 2017	Dividend Reinvestment Plan	(i)	7,214,309	12.2
30 September 2017	Closing balance		3,610,369,321	5,165.4

(i) On 27 June 2017, 7.2 million new shares were issued under the DRP. The new shares were issued at a price of \$1.69 providing approximately \$12.2 million.

Condensed notes to the consolidated interim financial statements

30 September 2018

Note D.3 Equity (continued)**(b) Shares held by employee share plans trust**

The Group uses an employee share trust as a delivery mechanism to satisfy future vesting entitlements for the Short Term Incentive Plan deferred equity rights for the Managing Director and the Long Term Incentive Plan (LTIP) performance rights. During the financial period, 1,901,462 shares were acquired on market at an average price of \$1.60 per share and 2,411,082 shares vested at an average price of \$1.73 per share.

The share trust is held by Computershare Pty Ltd and for accounting purposes the trust is deemed to be controlled by AusNet Services. Accordingly, the shares held by the trust are consolidated into the Group's financial statements. The shares have been excluded for the earnings per share calculation in note B.4.

Note D.4 Dividends

The following dividends were approved and paid by AusNet Services to shareholders during the current and previous interim financial periods:

	Date paid	Cents per share	Total dividend \$M
Current period			
Ordinary dividend - unfranked	28 June 2018	4.62	166.8
Total dividends		4.62	166.8
Previous period			
Ordinary dividend - unfranked	27 June 2017	4.40	158.6
Special dividend – unfranked	27 June 2017	1.00	36.0
Total dividends		5.40	194.6

In relation to the dividend paid in the previous financial period of \$194.6 million, \$12.2 million less transaction costs was utilised in the allotment of new shares issued under the DRP.

Condensed notes to the consolidated interim financial statements

30 September 2018

Section E Other disclosures

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

Note E.1 Contingent liabilities and contingent assets**(a) Rapid Earth Fault Current Limiter (REFCL) penalty regime**

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

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

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

(b) Other

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

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

Note E.2 Events occurring after the balance sheet date**(a) Dividend**

The Directors have approved an interim dividend for FY2019 to be paid on 20 December 2018, comprised as follows:

	Cents per share	Total dividend \$M
Franked dividend	1.94	70.3
Unfranked dividend	2.92	105.5
	4.86	175.8

The AusNet Services Ltd DRP will be in operation for the FY2019 interim dividend, with shares allocated at a two per cent discount to the volume weighted average price.

(b) Other matters

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

- (a) the operations in the financial period subsequent to 30 September 2018 of the Group;
- (b) the results of those operations; or
- (c) the state of affairs, in the financial period subsequent to 30 September 2018, of the Group.

Directors' declaration

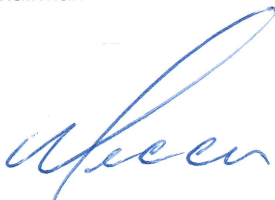
In the opinion of the Directors of AusNet Services Ltd (the Company):

- (a) the interim financial statements and notes set out on pages 11 to 30, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 September 2018 and its performance for the six-month period ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Peter Mason
Chairman



Nino Ficca
Managing Director

Melbourne
13 November 2018



Independent Auditor's Review Report

To the shareholders of AusNet Services Ltd

Report on the Interim Financial Report

Conclusion

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

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of AusNet Services Ltd is not in accordance with the *Corporations Act 2001*, including:

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

The **Interim Financial Report** comprises:

- Consolidated interim statement of financial position as at 30 September 2018
- Consolidated interim income statement, Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the half-year ended on that date
- Notes comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

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

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 September 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of AusNet Services Ltd, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

KPMG

Paul J McDonald

Partner

Melbourne

13 November 2018

AusNet Services Ltd
ACN 603 317 559

Financial Report

For the financial year ended 31 March 2018

Contents

Directors' report	3
Lead auditor's independence declaration	45
Consolidated income statement	46
Consolidated statement of comprehensive income	47
Consolidated statement of financial position	48
Consolidated statement of changes in equity	49
Consolidated statement of cash flows	51
Notes to the consolidated financial statements	52
Directors' declaration	100
Independent auditor's report	101
Glossary of terms	108

This financial report covers the consolidated entity consisting of AusNet Services Ltd and its subsidiaries. The financial report is presented in Australian dollars.

AusNet Services Ltd is a company limited by shares, incorporated and domiciled in Victoria, Australia. Its registered office and principal place of business is:

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

A description of the nature of AusNet Services Ltd's operations and its principal activities is included in the Directors' report.

The financial report was authorised for issue by the Directors on 13 May 2018.

Directors' report

Introduction

The Directors of AusNet Services present their report on the general purpose financial report of the consolidated entity for the financial year ended 31 March 2018 (FY2018).

The financial report is for AusNet Services Ltd and its controlled entities (we, us, our, AusNet Services or the Group).

What we do

We are an energy delivery services business, conducted through our electricity distribution, gas distribution and electricity transmission businesses. 24 hours a day, we move energy safely, reliably and efficiently to over a million Australians through our networks of assets, services, people and solutions. In addition, through our commercial energy services business we provide unregulated infrastructure, specialist metering, asset intelligence and telecommunication solutions to the utility and infrastructure sectors.

These activities are conducted through the following operating companies:

- AusNet Electricity Services Pty Ltd;
- AusNet Gas Services Pty Ltd;
- Select Solutions Group Pty Ltd; and
- AusNet Transmission Group Pty Ltd.

Our Values

Our values are the foundation for how we achieve our business objectives:

We work safely

We do what's right

We're one team

We deliver

Directors' report

Our Board of Directors

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

Peter Mason AM – *Independent Chairman (appointed March 2016)*

Qualifications

Bachelor of Commerce (First Class Honours), University of New South Wales
Master of Business Administration, University of New South Wales
Honorary Doctorate, University of New South Wales

Experience and expertise

Mr Mason has over 40 years' experience in investment banking, including JP Morgan and Schroders and brings to the board a wealth of business experience. In addition to his investment banking career, Mr Mason has extensive experience as both a Chairman and a Non-Executive Director of listed companies including Chairman of AMP Limited and Chairman of David Jones Limited.

Mr Mason is currently a Director of Singapore Telecommunications Ltd (SingTel), a Senior Advisor to UBS, Chairman of The Centre for Independent Studies and Chairman of the UBS Australia Foundation.

Mr Mason was a Trustee of the Sydney Opera House Trust for six years and a member of the Council of the University of New South Wales for 13 years. For 12 years he was a Director of the Children's Hospital in Sydney and Chairman of the Children's Hospital Fund for eight years. Mr Mason was appointed a Member of the Order of Australia for his contribution to the Children's Hospital.

Other current listed company directorships

Singapore Telecommunications Ltd (from 2010) (SGX-ST listed company)

Former listed company directorships in last three years

None

Special responsibilities

Chairman of the Board
Chairman of the Nomination Committee

Nino Ficca – *Managing Director (appointed September 2005)*

Qualifications

Bachelor of Engineering (Electrical – Honours), Deakin University
Graduate Diploma in Management, Deakin University
Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Ficca has over 30 years' experience in the energy industry, including numerous senior management roles with AusNet Transmission Group Pty Ltd (formerly SPI PowerNet Pty Ltd) including as Managing Director since 2003.

Mr Ficca is the Chair of Energy Networks Association Limited, a Director (and immediate past Chairman) of CIGRE Australia and Chair of the Deakin University Engineering Advisory Board. Mr Ficca is also a director of Transurban Queensland. He was formerly Deputy Chairman and Director of the Energy Supply Association of Australia.

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Managing Director

Directors' report

Our Board of Directors (continued)

Ralph Craven – *Non-executive Director (appointed January 2014)*

Qualifications

Bachelor of Engineering (Electrical – First Class Honours), University of Queensland
Doctor of Philosophy, University of New South Wales
Postgraduate Diploma in Management, Deakin University
Postgraduate Diploma in Information Processing, University of Queensland

Experience and expertise

Dr Craven has significant experience across a range of industries having worked in the energy, resources, infrastructure and agribusiness sectors for more than 35 years. His professional background encompasses electricity and gas businesses, mining, commodities trading, management of large scale system operations at the national level and the delivery of major infrastructure projects. Dr Craven has been a full time non-executive director since 2007 and served on many boards in the public and private sectors.

Dr Craven is the current Chairman of Stanwell Corporation Limited, the largest electricity generation company in Queensland. His prior directorships include being Chair of Invion Limited, Non-Executive Director and Chair of the Audit Committee of Mitchell Services Limited and a Director of Windlab Limited. He was formerly Chair of Ergon Energy Corporation Limited, Tully Sugar Limited and Deputy Chair of Arrow Energy Ltd. At the end of 2015 he completed a six year term as Director of the International Electrotechnical Commission (IEC) and Chair of the IEC National Committee of Australia. Dr Craven was CEO of Transpower New Zealand Limited and also held senior executive positions in Shell Coal Pty Ltd and NRG Asia Pacific Limited.

Other current listed company directorships

Senex Energy Limited (from 2011)
Genex Power Limited (from 2015)

Former listed company directorships in last three years

Invion Limited (2011 to 2015)

Special responsibilities

Member of the Audit and Risk Management Committee and the Nomination Committee

Sally Farrier – *Independent Non-executive Director (appointed January 2014)*

Qualifications

Bachelor of Chemical and Process Engineering (First Class Honours), University of Canterbury, New Zealand
Masters of Business Administration, Victoria University of Wellington, New Zealand
Post Graduate Diploma in Finance and Investment Analysis, Securities Institute of Australia

Experience and expertise

Ms Farrier is a professional Non-Executive director and corporate adviser with extensive experience in industry restructuring and economic reform, privatisation, strategy and risk management. Her professional career has focused on the utilities and infrastructure sectors, including water, electricity and gas. She has significant experience in the Australian energy industry and has held numerous expert roles in relation to water resources at Australian federal and state levels. Ms Farrier has served as a National Water Commissioner and as a member of the Victorian Water Trust Advisory Council. In addition, she has an active interest in innovation, community development and healthcare. Ms Farrier is also an active supporter of women entrepreneurs through her membership of Scale Investors.

Ms Farrier is currently a director and Deputy Chairman of Kidney Health Australia. Her prior directorships include Meridian Energy Limited, Manidis Roberts Pty Limited, Hydro Tasmania and Western Power. Ms Farrier was also a founding director of Farrier Swier Consulting Pty Limited.

Other current listed company directorships

None

Former listed company directorships in last three years

Meridian Energy Limited (2012 to 2016) (New Zealand Stock Exchange Listed Company)

Special responsibilities

Chairman of the Remuneration Committee
Member of Audit and Risk Management Committee and the Nomination Committee

Directors' report

Our Board of Directors (continued)

Ho Tian Yee – *Non-executive Director (appointed September 2008)*

Qualifications

Bachelor of Arts (Economics), Portsmouth University, UK
Master of Business Administration, University of Chicago, USA

Experience and expertise

Mr Ho has over 30 years' experience in managing and investing in global markets, holding various leadership roles in the banking and financial services sectors. As principal shareholder and Managing Director of Pacific Asset Management (S) Pte Ltd, he oversees the management of the company and assumes responsibilities for all investment decisions and risks.

Currently, he is the Chairman of Fullerton Fund Management Co. Ltd and an Advisor to Blue Edge Advisors Pte Ltd. He also serves as a non-executive director of DBS Group Holdings Ltd, DBS Bank Ltd, Chairman of Mount Alvernia Hospital and is a member of the Urban Renewal Authority of Singapore (URA) Investment Committee. His previous employment and board membership includes Bankers Trust Company, Singapore and Singapore Power Limited.

Other current listed company directorships

DBS Group Holdings Ltd (from 2011) (SGX-ST listed company)
DBS Bank Ltd (from 2011) (SGX-ST listed company)

Former listed company directorships in last three years

None

Special responsibilities

Member of the Remuneration Committee and the Nomination Committee

Robert Milliner – *Independent Non-executive Director (appointed July 2015)*

Qualifications

Bachelor of Commerce, University of Queensland
Bachelor of Laws (Honours), University of Queensland
Master of Business Administration, University of Western Australia
Advanced Management Program, Harvard Business School, USA

Experience and expertise

Mr Milliner has extensive experience in the legal and corporate sectors and during his time in legal practice specialised in commercial law in major energy sector reforms, mergers and acquisitions, privatisation and infrastructure transactions. He is a Senior Adviser at UBS and Senior Adviser to the International Chamber of Commerce Secretary General. He is a Director of the Global Infrastructure Hub Ltd and Chairman of the Board of the Foundation for Young Australians. In 2013 and 2014 he was the B20 Australia Sherpa and coordinated the international business community's recommendations to the 2014 G20.

From 2004 to 2011 he was Chief Executive Partner of law firm Mallesons Stephen Jaques (now King & Wood Mallesons) and retired from Mallesons in January 2012 after 28 years as a partner.

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Member of the Audit and Risk Management Committee, Remuneration Committee and Nomination Committee

Directors' report

Our Board of Directors (continued)

Nora Scheinkestel – *Independent Non-executive Director (appointed November 2016)*

Qualifications

Bachelor of Laws (Honours), Melbourne University
PhD, Melbourne University
Centenary Medal

Experience and expertise

Dr Scheinkestel is an experienced Company Director with more than 25 years' experience as a non-executive Chairman and Director of companies in a wide range of industry sectors including the public, government and private sectors. In the utility sector she has served as both chairman and director of a number of gas, water and electricity companies.

Dr Scheinkestel is a former banking executive and has significant experience in international and project financing. She has extensive financial and risk management expertise, which includes having chaired the audit and risk committees of a number of listed companies. She is currently Chairman of Macquarie Atlas Roads Ltd and a director of Macquarie Atlas Road International Limited, Telstra Corporation Limited and OceanaGold Corporation.

Her prior directorships include AMP Limited and its funds management and banking subsidiaries, Insurance Australia Group Limited, Mayne Pharma Limited, Orica Limited, Newcrest Mining Limited, Pacific Brands Limited and Stockland Corporation Limited.

Dr Scheinkestel is an Associate Professor at the Melbourne Business School at Melbourne University, a Trustee of the Victorian Arts Centre Trust and is a former member of the Takeovers Panel. In 2003, she was awarded a centenary medal for services to Australian society in business leadership.

Other current listed company directorships

OceanaGold Corporation (from 2018)
Macquarie Atlas Road International Limited (from 2015)
Macquarie Atlas Roads Limited (from 2014)
Telstra Corporation Limited (from 2010)

Former listed company directorships in last three years

Stockland Corporation Limited (2015 to 2018)
Orica Limited (2006 to 2015)

Special responsibilities

Chairman of the Audit and Risk Management Committee and member of the Nomination Committee

Sun Jianxing – *Non-executive Director (appointed January 2014)*

Qualifications

Bachelor of Engineering, Northeast Dianli University, China

Experience and expertise

Mr Sun has significant international engineering and business experience and has performed several senior executive and senior engineering roles in the energy sector. His previous roles include Co-Chair of International Cooperation Department, State Grid Corporation of China (SGCC), Head of SGCC Australia Representative Office, Deputy CEO of State Grid Energy Development Company Ltd, Deputy Director General of Materials & Equipment Supplying Department SGCC, and Chief Engineer of State Grid Shenzhen Energy Developments Ltd and Division Chief of International Cooperation Department, SGCC. In his early years, Mr Sun also worked as a Senior Engineer at the China General Institute for Electric Power Planning and Engineering.

Mr Sun is currently a Non-Executive Director of ElectraNet, Chairman of State Grid Overseas Investment Limited and Head of State Grid HongKong\India Representative Office.

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Member of Remuneration Committee and Nomination Committee

Directors' report

Our Board of Directors (continued)

Tan Chee Meng – *Non-executive Director (appointed May 2016)*

Qualifications

Bachelor of Engineering (Civil – First Class Honours), University of Canterbury, New Zealand
Bachelor of Laws (Honours), National University of Singapore, Singapore
Master of Laws (First Class), University of Cambridge, UK

Experience and expertise

Mr Tan has dual qualifications in engineering and law and has over 30 years' of experience in the legal industry, practising in the areas of general civil litigation, construction and engineering dispute resolution, criminal law, insurance, professional indemnity and disciplinary proceedings.

Mr Tan is a Director of Singapore Power Limited and Chairman of that company's Nominating Committee and a member of its Executive and Audit Committees. He also sits on the boards of Singapore Urban Redevelopment Authority and St Gabriel's Foundation. He is the Chairman of the School Management Committee of Assumption English School.

Mr Tan spent his earlier career as a civil engineer before becoming a qualified legal practitioner holding offices of Deputy Senior State Counsel and Deputy Public Prosecutor in both the civil and criminal divisions of the Attorney-General's Chambers, and Deputy Director of the Commercial Affairs Department in Singapore. Mr Tan joined private practice in 1993, and was appointed Senior Counsel in 2006. He is currently the Deputy Chairman of WongPartnership LLP.

Other current listed company directorships

None

Former listed company directorships in last three years

None

Special responsibilities

Member of the Audit and Risk Management Committee and Nomination Committee

Former Directors

Tina McMeckan (retired 20 July 2017)

Directors' report

Our Executive Leadership Team

The persons listed below were members of the AusNet Services Executive Leadership Team during the whole of the financial year and up to the date of this report, unless stated otherwise.

Nino Ficca – *Managing Director*

Role

As Managing Director, Mr Ficca manages AusNet Services' operations and provides strategic guidance and direction to the Board to ensure that the Company achieves its mission and objectives.

Claire Hamilton – *Executive General Manager, Governance and Company Secretary*

Bachelor of Arts (Business Studies – Honours), University of Sheffield, UK

Chartered Accountant (ICAEW)

Graduate Certificate in Innovation and Service Management, RMIT

Certificate in Governance Practice, Governance Institute of Australia

Role

Ms Hamilton is responsible for the legal, company secretarial, risk management, security and internal audit functions of AusNet Services.

Experience and expertise

Ms Hamilton has over 18 years' experience in the energy industry in risk management, internal audit and corporate accounting roles. Prior to joining AusNet Services, Ms Hamilton gained extensive external audit and advisory experience while working as a chartered accountant in both the UK and Australia. Ms Hamilton is a Non-Executive Director of the Energy and Water Ombudsman (Victoria) and the Institute of Internal Auditors Australia. Ms Hamilton is a graduate of the Australian Institute of Company Directors course.

Chad Hymas – *Executive General Manager, Commercial Energy Services*

Bachelor of Business (Accounting), Monash University

Bachelor of Arts (Organisational Psychology), Monash University

Master of Business Administration, Deakin University

Certified Practising Accountant (ASCPA)

Role

Mr Hymas is responsible for the growth and strategic direction of the commercial energy services business which includes unregulated infrastructure services, emerging energy markets, utility and metering services and asset intelligence services.

Experience and expertise

Mr Hymas has extensive strategy, operations and finance experience in the energy sector, having worked for TXU, SPI Electricity and AusNet Services, since 2001. Having held numerous positions within AusNet Services, Mr Hymas was most recently General Manager, Strategy and Business Development, leading a broad range of strategic initiatives in strategy, transformation and business development. Mr Hymas began his career at Arthur Andersen, followed by various financial roles for Motorola Australia & New Zealand.

Geraldine Leslie – *Executive General Manager, People, Safety & Customer*

Bachelor of Arts, University of Wollongong

Master of Business Administration, University of Wollongong

Role

Ms Leslie manages the human resources, health, safety environment and quality, corporate affairs and customer functions for the Group, known as the People, Safety & Customer Division.

Experience and expertise

Prior to joining AusNet Services in 2009, Ms Leslie worked at BlueScope Steel for almost nine years, holding senior HR leadership roles, including General Manager Human Resources for BlueScope's Australian Coated and Industrial Markets. Her background also incorporates various senior executive and leadership roles in the public health sector and local government.

Directors' report

Our Executive Leadership Team (continued)

Matt Guthridge – *Executive General Manager, Strategy & Transformation* (appointed 29 November 2017)

Bachelor of Science, Monash University
Graduate Diploma in Psychology, Monash University
Doctor of Psychology (Organisational), University of Melbourne

Role

Dr Guthridge is responsible for managing the development and implementation of AusNet Services' corporate strategy, business planning and transformation agenda.

Experience and expertise

Dr Guthridge has more than 15 years' of strategy and transformation experience in assisting some of the world's leading energy and utilities companies. Prior to his appointment as the Executive General Manager – Strategy & Transformation in 2017, Dr Guthridge was Head of Utilities Transformation at The Boston Consulting Group (BCG). Dr Guthridge was formerly a Partner at PwC in Australia and an Associate Principal in the Global Energy Practice of McKinsey & Company, based in London. During his career, he led numerous multi-year strategy and transformation programs for some of the world's leading energy and utilities companies.

Adam Newman – *Executive General Manager and Chief Financial Officer*

Bachelor of Business, Western Australian Institute of Technology (now Curtin University)
Post Graduate Diploma of Business, Curtin University
Graduate Diploma in Applied Finance, Securities Institute of Australia
Chartered Accountant

Role

Mr Newman is responsible for all key financial and financial reporting functions as well as Procurement, Investor Relations, Treasury, Insurance and Tax.

Experience and expertise

Mr Newman joined AusNet Services in 2013, having held numerous financial and operational roles at BlueScope Steel in Australia and the United States, including as General Manager, Commercial Australia and New Zealand, President Steelscape Inc. and CFO North America. Prior to joining BlueScope, Mr Newman worked at BHP from 1996 to 2001 in Corporate Strategy, Mergers and Acquisitions and Business Development. Mr Newman is a Chartered Accountant who also worked at Coopers & Lybrand's Corporate Advisory group from 1989 to 1996 in both Perth and London.

Alistair Parker – *Executive General Manager, Regulated Energy Services*

Bachelor of Engineering (Honours), Aston University, UK
Master of Business Administration, Lancaster University, UK

Role

Mr Parker is responsible for the Regulated Energy Services portfolio of businesses including three regulated energy networks, regulatory strategy, asset management, metering and service delivery.

Experience and expertise

Mr Parker has more than 30 years' experience in the energy industry, including a decade of senior leadership roles. Mr Parker joined AusNet Services in 2009 as Director, Regulation and Network Strategy prior to being promoted to General Manager – Asset Management. Before moving to Australia, Mr Parker spent 15 years with National Grid, UK, initially as an engineer, then moving into commercial roles. In 2000, he became a consultant with Ernst & Young in New Zealand before moving to PricewaterhouseCoopers in Australia, ultimately as Melbourne Energy Economics Practice Leader.

Directors' report

Our Executive Leadership Team (continued)

Mario Tieppo – *Executive General Manager, Technology*

Bachelor of Business (Accounting), Philip Institute of Technology
Certified Practicing Accountant (ASCPA)
Senior Member, Australian Computer Society

Role

Mr Tieppo manages organisationally aligned technology strategies and architecture to support the Group's long-term goals. Mr Tieppo also leads technology investments to improve operational effectiveness and digital innovation.

Experience and expertise

Mr Tieppo has more than 25 years' experience in Information Technology (IT), building IT functions and leading large business change programs. Mr Tieppo joined AusNet Services in 2013, following his role as Chief Information Officer for SA Power Networks. He has also held senior management positions in the government, postal utilities, retail and logistics sectors. In previous positions, Mr Tieppo has been responsible for strategy and planning, program and project management and the management of critical information systems. Mr Tieppo also has a strong financial background as a Certified Practicing Accountant in the areas of financial management, audit and procurement.

Directors' report

Strategy

Our 'Focus 2021' Corporate Strategy responds to the new energy environment, which is characterised by a wave of industry change, focused on modernisation and transformation of all aspects of the energy market. This new environment is changing rapidly due to technological advancements, heightened regulatory scrutiny, higher customer expectations and changing roles and responsibilities in the energy market.

The 'Focus 2021' Corporate Strategy accelerates our efforts to:

- **lead network transformation** and embrace change;
- **grow commercial services;**
- **drive efficiency and effectiveness** throughout the portfolio to maximise value; and
- **generate trust and respect** with customers and partners to **build our reputation** with all stakeholders.

The key objectives of our 'Focus 2021' Corporate Strategy are:

- to grow our contracted energy infrastructure asset base to \$1 billion; and
- to operate all three core networks in the top quartile of efficiency benchmarks.

A core objective of our strategy is to deliver sustainable and growing returns to shareholders, through investment in our regulated and contracted asset base, with a continued focus on cost management. Our asset base for both the core regulated networks and contracted businesses provides significant and predictable long-term cash flows, enabling maintenance of prudent and sustainable financial settings and a strong investment-grade credit rating.

During FY2018 we have made significant progress in relation to these objectives, including the signing of over \$170 million of contracted assets and improved Electricity Distribution benchmarking performance based on CY2017 data.

Directors' report**Operating & Financial Review**

We own and operate three regulated energy network businesses, which include Victoria's high voltage electricity transmission network, an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria, as well as a commercial energy business.

Safety performance

	FY2018	FY2017	Movement	%
Recordable Injury Frequency Rate (RIFR)	5.46	6.59	(1.13)	(17.1)

FY2018 saw a 17 per cent reduction in the recordable injury frequency rate, primarily driven by a 39 per cent reduction in the number of lost-time injuries.

Financial performance

The following table summarises our financial performance and key financial measures in the current year:

\$M	FY2018	FY2017	Movement	%
Revenue	1,909.8	1,881.5	28.3	1.5
EBITDA	1,142.9	1,073.3	69.6	6.5
NPAT	291.4	255.1	36.3	14.2
Cash flow from operations	886.4	742.8	143.6	19.3
Dividends per share (ordinary)	9.25	8.80	0.45	5.1
Return on equity (ROE)	8.0%	7.0%	1.0%	14.3

Cash flows from operations increased 19.3 per cent as a result of a \$60 million increase in cash earnings, lower tax paid due to a \$25 million refund and positive working capital movements (timing of receipts and payments).

Net profit after tax increased by 14.2 per cent as a result of higher customer contribution revenues and lower operating costs arising from a combination of our ongoing efficiency program and one-offs in the prior year.

A summary of our revenues and results by operating segment for the financial year ended 31 March 2018 is set out below.

Electricity transmission business

	FY2018	FY2017	Movement	%
Segment revenue (\$M)	601.9	586.0	15.9	2.7
Segment result – EBITDA (\$M)	379.8	381.4	(1.6)	(0.4)
Capital expenditure (\$M)	163.8	192.2	(28.4)	(14.8)

Higher transmission revenues were due to the \$25.1 million increase in easement tax pass-through, which increased both revenue and expenses, offset by lower revenues resulting from the first year under the Transmission Revenue Reset (TRR) Final Determination for 2017-2022.

Total transmission expenses decreased \$7.6 million (excluding easement tax) relative to FY2017, which included an additional \$5.2 million restructuring and redundancy costs, as well as lower labour costs in FY2018 as a result of a 14 per cent decrease in headcount across the AusNet Services Group. The decline in EBITDA reflects lower revenues excluding easement tax. Easement tax represents approximately 60 per cent of total operating expenses and is reflected as a pass-through revenue item.

The major CBD terminal station rebuilds account for \$64.1 million of total capital expenditure, a reduction of \$9.1 million from the prior year (reductions at Brunswick and Richmond partly offset by an increase at West Melbourne, which was in the design phase in FY2017).

Directors' report**Operating & Financial Review (continued)*****Electricity distribution business***

	FY2018	FY2017	Movement	%
Segment revenue (\$M)	891.4	868.2	23.2	2.7
Segment result – EBITDA (\$M)	540.2	467.7	72.5	15.5
Volume (GWh)	7,716	7,682	34	0.4
Connections	722,046	705,186	16,860	2.4
Capital expenditure (\$M)	439.3	427.0	12.3	2.9

Increased revenues of \$23.2 million are primarily due to \$19.3 million increase in customer contributions as a result of a change in the National Electricity Rules that allow a greater recovery of customer initiated works and an overall increase in the volume of customer initiated works relating to housing developments during FY2018.

Regulated revenues have increased by \$16.7 million (excluding metering) due to favourable weather and increase in prices as a result of the price path in the 2016-2020 Electricity Distribution Price Review (EDPR). This was partially offset by lower metering revenues due to the Australian Energy Regulator (AER) decision on our 2016 Advanced Metering Infrastructure (AMI) Transition Charges Application which decreased revenue by \$52.7 million (\$2018) smoothed over calendar years 2018 to 2020. The FY2018 impact of this adjustment was approximately \$6.8 million.

Operating expenses decreased \$49.3 million or 12.3 per cent due to:

- \$17.8 million in cost reduction initiatives, primarily lower labour costs as a result of a 14 per cent decrease in headcount across the AusNet Services Group;
- \$13.6 million decrease in service level payments due to October 2016 storm events in the prior year;
- \$8.5 million of redundancy, restructuring and program implementation costs associated with business efficiency initiatives included in the prior year; and
- \$7.5 million write-off for an IT project in the prior year.

Capital expenditure increased, despite the completion of the metering remediation program in FY2017 (\$73 million reduction) due to increases in expenditure for Rapid Earth Fault Current Limiter (REFCL) program (\$44 million), Power of Choice (\$11 million) and higher customer connections.

Future revenue impacts

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

- There is a difference between the regulated revenue recognised under our accounting policy, and the revenue cap under the EDPR determination. This difference is trued-up as an adjustment to tariffs in future periods. As at 31 March 2018 we have a cumulative over-recovery of \$8.0 million which will reduce our revenue in CY2018 and CY2019.
- The AER's decision on our 2016 AMI Transition Charges Application decreased revenue by \$52.7 million over calendar years 2018 to 2020. The amount remaining to be adjusted at 31 March 2018 is \$45.9 million.
- In FY2018, we received \$31.0 million of incentive revenues under the Service Target Performance Incentive Scheme (STPIS). This revenue was received as a result of outperformance of targets in CY2015. However, in CY2018 we will receive no STPIS revenue as a result of outages and storm activities that occurred in CY2016.

Directors' report**Operating & Financial Review (continued)****Gas distribution business**

	FY2018	FY2017	Movement	%
Segment revenue (\$M)	224.6	224.3	0.3	0.1
Segment result – EBITDA (\$M)	162.3	164.4	(2.1)	(1.3)
Volume (PJ)	66.0	66.3	(0.3)	(0.5)
Connections	692,282	676,035	16,247	2.4
Capital expenditure (\$M)	96.9	87.7	9.2	10.5

Revenues were largely unchanged, with several impacts largely offsetting each other being:

- \$5.0 million increase in customer contributions due to the completion of the Avoca rollout under the Victorian Government's Energy for the Regions program;
- a 5 per cent increase in tariffs from 1 January 2017; offset by
- a 9.4 per cent decrease in tariffs from 1 January 2018 as part of the AER Final Decision on 2018-2022 Gas Access Arrangements Review (GAAR); and
- \$10.0 million of billing adjustments for gas adjoining tariffs recognised in FY2017.

Operating expenditure increased by \$2.4 million primarily due to \$1.8 million write-off relating to billing adjustments for gas adjoining tariffs recognised in FY2017.

Capital expenditure increased due to spending on the mains renewal program, which experienced delays in the prior year due to timing of council approvals.

Commercial energy services

	FY2018	FY2017	Movement	%
Segment revenue (\$M)	206.2	221.4	(15.2)	(6.9)
Segment result – EBITDA (\$M)	60.6	59.8	0.8	1.3
EBITDA Margin (%)	29.4	27.0	2.4	8.9
Capital expenditure (\$M)	50.2	132.7	(82.5)	(62.2)

The commercial energy services business consists of contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. Contracted infrastructure asset services own and operate a portfolio of assets that fall outside the regulated asset base (the largest of which is the Wonthaggi desalination plant transmission connection). The investments are made through directly negotiated agreements, pursuant to which AusNet Services typically receives revenue over the contract period in exchange for the infrastructure and operational services provided. The customers of this business primarily operate in the utility, renewables and essential infrastructure sectors of electricity, water, gas and rail.

Revenues reduced by \$15.2 million predominantly as a result of the strategic refocus away from providing certain maintenance services, causing the deliberate exit from a number of field services agreements. This reduction was partly offset by \$4.2 million increase in revenues from Mortlake Terminal Station. The EBITDA margin improved as a result of the refocus.

Capital expenditure included \$17.1 million for the Salt Creek wind farm transmission connection assets as well as \$13.6 million on four other wind farm connection projects in the early stages of construction. FY2017 included \$116.0 million for the acquisition of Mortlake Terminal Station.

Directors' report

Financial position

Total equity of the Group was \$3,556.0 million as at 31 March 2018, a decrease of \$142.4 million compared to the previous financial year, primarily attributed to the hedge reserve movement for the year.

Our current assets exceed current liabilities by \$0.7 million at 31 March 2018. We have prepared the financial report on a going concern basis, which contemplates the continuity of normal trading operations. The Group is, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2018, the Group has available a total of \$545.5 million of undrawn but committed bank debt facilities and \$658.2 million of cash (required for a bond repayment in June 2018).

Non-current assets increased by \$494.9 million compared to prior year, largely due to the \$750.2 million of capital expenditure invested into the asset base offset by the depreciation of our assets.

Non-current liabilities increased by \$768.8 million due primarily to the refinancing of debt during the year.

Capital management

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

Debt raising

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

In line with our Treasury Risk Policy, we maintain a diversified debt portfolio by maturity and source. AusNet Services has an A- credit rating from Standard and Poor's and A3 from Moody's Investor Services. This contributed to the successful completion of \$900.9 million of bond issues during the current financial year, being:

- an AUD 550 million 10.5-year bond issue in February 2018;
- a EUR 161 million (A\$251.6 million) 12-year bond issue in February 2018; and
- a HKD 610 million (A\$99.3 million) 15-year bond issue in February 2018.

These issuances satisfy our refinancing requirements for the next twelve months.

Dividends

Dividends paid to shareholders during the financial year were as follows:

	Final 2017		Interim 2018	
	Cents per share	Total dividend \$M	Cents per share	Total dividend \$M
Unfranked ordinary dividend	4.40	158.6	4.63	167.2
Unfranked special dividend	1.00	36.0	-	-
	5.40	194.6	4.63	167.2

Since the end of the financial year, the Directors have approved a final dividend for FY2018 of \$167.0 million (4.62 cents per share) to be paid on 28 June 2018. The final dividend will be unfranked.

Dividend Reinvestment Plan (DRP)

In relation to the final 2017 dividend paid on 27 June 2017, \$12.2 million was utilised in the allotment of new shares issued under the DRP, representing a take-up rate of approximately six per cent. In relation to the interim 2018 dividend paid on 21 December 2017, \$7.4 million was utilised in the allotment of new shares issued under the DRP, representing a take-up rate of approximately four per cent. The DRP will be suspended for the final 2018 dividend as a result of the Singapore Stock Exchange delisting in progress.

Directors' report

Material risks and uncertainties

We are committed to understanding and effectively managing risk to provide greater certainty and confidence for our shareholders, employees, customers, suppliers and communities in which we operate. We maintain oversight of our material business risks (financial and non-financial) at an enterprise-wide level and report regularly to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. We are cognisant of the following principal risks which may materially impact the execution and achievement of our business strategy and financial prospects.

Industry and regulatory risks

Industry developments

The energy industry is currently experiencing a period of unprecedented change and uncertainty, with a significant focus on energy security, reliability and affordability. Various political, regulatory and industry bodies continue to debate, recommend and implement various reform programs that will have significant impacts on the operation of the energy market and could have significant impacts on our business.

A number of regulatory and policy reviews are in progress, including (but not limited to):

- Review of the Rate of Return Guideline – the AER is currently reviewing the Rate of Return Guideline for electricity network regulatory determinations. The National Electricity Rules require a review to be completed within 5 years of publishing the current guidelines (due December 2018). The Rate of Return Guideline is currently a non-binding guideline, however, the Council of Australian Governments (COAG) Energy Council is likely to make the guideline binding. This review may have significant implications for future revenue determinations.
- Retail pricing review – at the direction of the Treasurer of the Australian Government, the Australian Competition and Consumer Commission (ACCC) is conducting an inquiry into the supply of retail electricity and the competitiveness of retail electricity prices. Whilst the primary focus of the review is on the market elements of the supply chain, the review is also examining the contribution of network costs to customer bills. This inquiry and the “Independent Review into the Future Security of the National Electricity Market” (“the Finkel Review”) both explore the need to examine ways to reduce the existing network costs embedded in the system.
- In October 2017, the Federal Government announced the National Energy Guarantee (NEG), a proposed energy policy to address rising energy prices in Australia and provide clarity for energy infrastructure investments. The NEG will require the support of all State Governments in order to activate the scheme, which has yet to occur. The Guarantee is made up of two parts that together will require energy retailers and some large users across the NEM to ensure reliability and deliver lower-emissions energy generation each year. The impact on our network as a result of any implementation of the NEG is not yet known given uncertainty as to its detailed design and adoption.
- The Security of Critical Infrastructure Act 2018 comes into effect in July 2018. This Act will create a critical assets register to provide the Government with greater visibility and understanding of who controls and has access to critical infrastructure assets. As an owner and operator of critical infrastructure assets, we will be impacted by the Act. We continue to work through our reporting obligations of the Act to ensure compliance.

We continue to closely monitor developments and play an active advocacy role in the shaping of the industry. The impacts of these developments on AusNet Services, if any, cannot be stated with certainty at this stage.

In addition to policy development, traditional energy models are changing with the closure of coal-fired power stations and the increase in renewable and distributed generation and storage. These changes are driven by changes in technology, environmental and regulatory policies, customer expectations, and cost. These changes are expected to continue in the future and impact our networks' regulatory framework and the need to adapt and provide services to customers.

We continue to play a key role in the reform of the industry in terms of our active contribution in the current reviews and the trial of new technologies on our network. Our objective is to actively participate in shaping industry development and to lead and deliver network transformation.

Transition to metering competition in Victoria

On 26 November 2015 the Australian Energy Market Commission (AEMC) published its final determination and final rule on expanding competition in metering and related services (Power of Choice). In March 2017, The Victorian Government deferred the adoption of metering competition in Victoria. Victorian electricity distributors will remain responsible for metering services for all small customers until at least 1 January 2021 and the Victorian smart metering specification will remain in place.

The Victorian Government proposed that a review be undertaken prior to 1 January 2021 to determine whether metering competition should be introduced in Victoria. The review will examine the benefits to Victorian electricity users of switching to the national regime, the impact of competition in metering services on particular customer groups, how potential barriers to distributors access to metering data can be addressed and the experience of other jurisdictions in implementing metering competition.

Directors' report

Material risks and uncertainties (continued)

Industry and regulatory risks (continued)

Transition to metering competition in Victoria (continued)

During FY2018, AusNet Services completed the implementation of Power of Choice, which required us to invest in new systems and processes, and make significant changes to existing metering systems. This lays the foundation to allow us to accommodate any future changes beyond metering contestability, including cost reflective pricing, new business-to-business processes and interaction with a new market gateway.

Rapid Earth Fault Current Limiter (REFCL) program

On 1 May 2016, the Electricity Safety (Bushfire Mitigation) Amendment Regulations 2016 (Amended Bushfire Mitigation Regulations) came into effect in Victoria. The amended regulations require Victorian distributors to install REFCLs at designated zone substations. The purpose of the REFCL devices is to reduce the risk of a bushfire caused by a fallen powerline. AusNet Services is required to meet a defined quota of zone substations with operational REFCLs by 1 May 2019 (30 points) with an additional quota to be operational by 1 May 2021 (53 points) and the remaining designated zone substations fitted with REFCLs by 1 May 2023 (63 points in total). In total, the Regulations require AusNet Services to install REFCL devices at 22 zone substations by 1 May 2023. Each zone substation is attributed a point score from 1 to 5, with the highest value attributed to those zone substations where fire mitigation measures would provide the greatest benefit, depending on the degree of bushfire risk.

The Victorian Government subsequently introduced the Electricity Safety Amendment (Bushfire Mitigation Civil Penalties Scheme) Act 2017 (Amendment Act). This Amendment Act amended the Electricity Safety Act 1998 (Vic) (ESA) to provide for significant financial penalties if AusNet Services fails to achieve the number of points prescribed by the Regulations by the applicable deadline.

The penalties legislation prescribes a penalty of \$2,000,000 per point that AusNet Services falls short. Accordingly, penalties of up to \$10 million per zone substation can apply if AusNet Services fails to achieve the required capacity by the prescribed dates. Additionally, a daily penalty of \$5,500 can be applied for each day AusNet Services remains non-compliant.

The REFCL program presents several risks, including technology risk, network risk, vendor risk and funding risk. In August 2017, the AER made a final decision on AusNet Services' contingent project application for tranche one of the REFCL installation program, approving total capital expenditure of \$97 million. This was \$7 million lower than our original application. The proposed expenditure for tranche one, which is due to be completed by April 2019, comprises:

- installation of REFCL devices at nine zone substations;
- replacement of equipment in the 22kV distribution network that is incompatible with REFCL operation; and
- installation of isolating transformers to protect high voltage (HV) customers' equipment from damage due to increased voltages as a result of REFCL operation.

During FY2018, AusNet Services spent \$49 million on REFCL tranche one, with the projects remaining on schedule in order to meet the defined quota of 30 points by 1 May 2019. Funding for tranches two and three of the REFCL program will be subject to future contingent applications.

REFCL devices in service may result in parts of the network operating outside of the voltage standards set out in the Victorian Electricity Distribution Code. A review of voltage standards is underway by the Essential Services Commission in order to align the Code to our obligations under the Amendment Act and Amended Bushfire Mitigation Regulations. We are currently working with affected high voltage customers to protect their assets from increased voltages, including modifications to our network where required. There is a risk that delays in working with HV customers and implementing acceptable modifications to their assets may result in delays to the delivery of the overall program.

Price determinations

The energy industry in Australia is highly regulated. The regulated component of our revenues (approximately 86 per cent of total revenues for the year ended 31 March 2018) are 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. The upcoming regulatory reset dates for our electricity transmission network, gas distribution network and electricity distribution network are 1 April 2022, 1 January 2023 and 1 January 2021, respectively. Under legislation recently passed, network service providers are no longer able to have a final regulatory decision from the AER reviewed by the Australian Competition Tribunal.

Directors' report

Material risks and uncertainties (continued)

Industry and regulatory risks (continued)

Price determinations (continued)

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 our costs, this may adversely affect our financial performance and position. In addition, we are exposed to cost changes within a regulatory control period and bear the risk of any shortfall in allowances for costs provided by regulatory determinations. The regulator applies 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 particularly subject to benchmarking comparisons to set efficient levels going forward.

We carefully manage these risks in a number of ways. Prior to the commencement of a regulatory period, we develop a detailed plan of works to be undertaken and costs to be incurred as well as energy and maximum demand forecasts. Particular emphasis is placed on ensuring that we continue to maintain safe, resilient and reliable networks and that the costs to be incurred are efficient and prudent. This information is submitted to the AER as part of the determination process, and where appropriate the views of industry and other external experts are sought to be included in the submission.

AusNet Services will be the first Australian energy business to trial a new process that places customers at the heart of developing our expenditure plans. The new process involves the establishment of a Customer Forum which will form part of our 2021-25 EDPR proposal. This draft process is called New Reg: Towards Consumer-Centric Energy Network Regulation, more details of which can be found on the AER's website (<https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/regulatory-innovation>). During the regulatory period we continuously monitor and manage our costs through processes and systems which produce high quality data and enable efficiency, effectiveness and control. In addition, through our organisation-wide efficiency program we aim to improve our benchmark performance.

Network risks

Our 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 (including cyber-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 our 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 our business and reputation. Our emergency response, crisis management and business continuity management system is the approved methodology to guide response and recovery activities. However, it may not be able to effectively protect our business and operations from these events.

We are 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 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 our zone substations and terminal stations have property cover to insure against failure, but incidents outside the boundaries of our 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 our financial performance and position.

The changing generation mix in Victoria and the location of generators in the future may impact the configuration of the electricity transmission network and increases the risk of redundant assets in the event of significant network configuration changes. We continue to work closely with all stakeholders associated with the planning and development of generational capacity to manage such risk.

Funding and market risks

We rely on access to financial markets as a significant source of liquidity for growth capital requirements not satisfied by operating cash flows. Our access to financial markets could be adversely impacted through various factors, such as a material adverse change in our business or a reduction in our credit rating. The inability to raise capital on favourable terms, particularly during times of uncertainty in the financial markets, could impact our ability to sustain and grow our capital intensive businesses, and would likely increase our cost of capital. AusNet Services has operated the DRP since 2008, with discount levels that have varied between zero and 2.5 per cent. The use of a DRP and the level of discounting is dependent upon funding requirements at a point in time.

Directors' report

Material risks and uncertainties (continued)

Funding and market risks (continued)

Furthermore, we have a large amount of debt, with a net debt to Regulated and Contracted Asset Base ratio at 31 March 2018 of 67 per cent (excluding equity credit for the \$706 million of hybrid instruments). The degree to which we may be leveraged in the future could affect our ability to service debt and other obligations, to pay dividends to shareholders, to make capital investments, to take advantage of certain business opportunities, to respond to competitive pressures or to obtain additional financing. In addition, we are exposed to a number of market risks associated with this debt, including interest rate and foreign currency risk.

We effectively manage these risks in accordance with our Treasury Risk Policy which is approved by the Board and reviewed by the Audit and Risk Management Committee periodically. Under this policy, we aim to have a diverse funding mix in terms of source and tenor and proactively monitor and manage our credit metrics. This enables us to maintain an 'A' range credit rating, ensures continued access to various markets and limits the funding requirement for any given year. In addition, through the use of derivative financial instruments we aim to hedge 90 to 100 per cent of our interest rate risk.

Climate change and sustainability risks

As an energy transmission and distribution company, AusNet Services is actively assisting the industry address climate change risks. Risks associated with climate change include the implications of energy policy developments and changes to regulations as outlined in the industry and regulatory risks section above. In particular, the Federal Government announcement of the NEG proposed energy policy to provide clarity for energy infrastructure investments and require some large users across the NEM to deliver reliable and lower emissions energy generation each year. AusNet Services will play an active role in operationalising this policy and helping the industry to de-carbonise.

Other risks include the physical impacts of changing environmental conditions on our network assets and sustained interruptions from severe weather events such as storms, bushfires or floods.

Risk management for these risks includes reviewing engineering standards and ratings for equipment, a significant investment in bushfire mitigation activities and the ongoing development and testing of emergency response plans.

Information and communication technology risks

The drive to reduce carbon emissions, customers' increasing needs for higher levels of reliability and the reduction in the cost of digital technology have resulted in a greater role for technology in the enablement, management and operations of utility networks. The greater role of technology comes with an increased risk and potential impact of cyber-attacks. This increased focus on the role technology plays in the management and operations of utility networks will require the introduction of new digital technology platforms. In the event there is any significant delay in the development of new technology, this may negatively impact our revenue or require unforeseen capital investment to replace obsolete technology.

In addition, as with all new business solutions, there are risks associated with solution design, implementation, budgeting, planning, integration, future maintenance, upgrades and support. The realisation of any such risks could adversely impact the effectiveness and cost of such a solution and business continuity.

On 28 November 2017 the AEMC made a final rule to change the settlement period for the electricity spot price from 30 minutes to five minutes, starting on 1 July 2021. This rule may require additional investment in metering and IT systems, with increased data collection and management requirements. Similar to metering contestability, the application of the AEMC rule is subject to approval from the Victorian Government.

To mitigate these risks, we have established a centralised architecture, delivery and governance capability to ensure technology needs are delivered successfully through an architecturally-led approach with appropriate governance applied.

Directors' report – Remuneration report (audited)

Dear Shareholder,

On behalf of the Board, I am pleased to introduce our FY2018 Remuneration Report, for which we seek your support at our Annual General Meeting (AGM) on 19 July 2018.

This letter addresses key remuneration outcomes for FY2018, including commenting on the changes introduced during FY2018 as highlighted in my letter accompanying FY2017 Remuneration Report.

In that letter, I said that the Board would continue to monitor developments in remuneration practice, listen to feedback and review executive remuneration arrangements to ensure they are effective in driving performance and long-term shareholder value. In that context, this letter draws attention to the changes instigated for FY2019 and comments on current areas of focus for the Remuneration Committee and Board.

AusNet Services FY2018 remuneration outcomes

In absolute terms, overall remuneration outcomes for the Managing Director and Executive Key Management Personnel (KMP) are higher than for FY2017. There were no changes to the Managing Director's fixed remuneration of \$1,300,000 or other Executive KMP during FY2018. However, as a result of our financial outperformance, the Managing Director's Short Term Incentive (STI) payment was higher in FY2018 with vesting of 110.0 per cent of target compared to 96.8 per cent for FY2017. Executive KMP average STI vesting increased to 107.5 per cent compared to 93.3 per cent for FY2017. Long Term Incentive (LTI) awarded in 2015 (for the FY2016 to FY2018 performance period) resulted in 85.9 per cent vesting compared to 70.6 per cent for FY2017.

The STI remuneration outcomes reflect the strong financial performance and significant progress in executing AusNet Services' strategy in our regulated and unregulated businesses. Financial performance exceeded targets and significant progress was made on driving increased cost efficiency in the regulated business and growing the asset portfolio in the unregulated business. Importantly, the STI outcomes also reflect a continued emphasis on safety performance, which is a touchstone for AusNet Services.

The LTI vesting outcome reflects the sound financial performance across the FY2016 to FY2018 performance period in terms of relative total shareholder return (64th percentile), compound annual earnings per share growth (EPS CAGR) of 130 per cent and return on invested capital of 5.67 per cent. The high EPS CAGR is heavily impacted by the low baseline EPS in FY2015 which is used to calculate CAGR; FY2015 NPAT and EPS results were reduced by a significant tax settlement. Consistent with the Board's approach not to make adjustments to statutory outcomes for the purpose of testing LTI performance, EPS growth from FY2016 to FY2018 was therefore significant.

In relation to Non-Executive Director remuneration, no increases were made to base Non-Executive Director fees and Committee fees. However, effective 1 October 2017, the Board Chairman's annual fee was increased by 10.3 per cent to \$430,000 to align with other companies of a similar size and complexity.

Impact of design changes introduced in FY2018

As I outlined in my letter accompanying the FY2017 Remuneration Report, during FY2018 we introduced a new STI plan to drive performance and execution of AusNet Services' strategy. The new STI plan is more heavily weighted to financial performance (financial KPIs directly contribute to 60 per cent of the STI outcome), more directly links remuneration outcomes with performance and reduces the maximum STI opportunity from 196 per cent to 150 per cent of target. In addition, the new STI plan includes financial and safety gateways that must be achieved before any payments are made.

The Board is pleased that changes made to the FY2018 STI framework to highlight financial performance are helping to grow an increasingly more commercial and cohesive business culture. The single scorecard is helping strengthen alignment and focus across the business, while also supporting the benefit of collaboration and diversity.

As outlined in the FY2017 remuneration report and approved by shareholders at the 2017 AGM, effective FY2018 the Managing Director's LTI grant increased to 120 per cent of fixed remuneration, reflecting a decision to ensure a larger proportion of his remuneration be at risk over the longer term.

Adjustments to Remuneration Arrangements for FY2019

- **Executive remuneration market review:** During FY2018 the Board reviewed executive remuneration arrangements and benchmarked structures and pay levels. In general the review confirmed that overall existing remuneration arrangements were in line with market levels, but highlighted some fixed remuneration anomalies, which have been taken into account in setting FY2019 fixed remuneration.
- **Executive remuneration strategy:** During FY2018, a key area of focus was our LTI Plan. As a result of our review, the Board identified that changes to the LTI performance hurdles, vesting scales and relative TSR comparator group would be appropriate to enhance the effectiveness of the plan and reflect AusNet Services' current strategy and environment.

Directors' report – Remuneration report (audited)

For the 2018 LTI grant, the relative TSR comparator group will be aligned to ASX100 (without exceptions) to ensure management are challenged and benchmarked against significant sized businesses. In addition, changes to the performance hurdles and vesting scales reflect the Board's commitment to ensuring continued improvement in performance, in keeping with shareholder expectations. Details of the changes to our LTI plan are described within this report.

Areas of focus and continuous improvement

The Board is committed to AusNet Services' remuneration arrangements that:

- support short and long term business performance;
- provide incentives for reward as a result of stretch performance;
- promote the values and behaviours of teamwork, safety and doing the right thing; and
- link reward outcomes to shareholder benefits.

The Remuneration Committee and Board maintain a watching brief on the remuneration framework and how it is applied to ensure it appropriately reflects the needs of our business and our shareholders:

- **Evolution to align remuneration and business strategy:** We will continue to explore the opportunities and merits of evolving the remuneration arrangements to enhance our business performance and deliver our strategic objectives, balancing the benefits of transparency, relative simplicity and consistency.
- **Evidence and external perspectives:** We look for evidence concerning how effective performance measures and targets are in driving behaviours and examine trends in business performance and remuneration outcomes. We use external information and stakeholder views to challenge management and our own thinking regarding remuneration.
- **Remuneration report:** We continue to focus on providing transparent and meaningful disclosures on remuneration and therefore improving our remuneration report each year.
- **Stakeholder engagement:** We have benefited from regular stakeholder engagement. This has been valuable in supporting and planning activities on our remuneration agenda.

On behalf of the Board, I thank you for your support and feedback, and commend this report to you.

Regards



Sally Farrier

Remuneration Committee Chairman

Directors' report – Remuneration report (audited)

Introduction and Contents

Our objective in preparing this report is to illustrate how AusNet Services executive rewards align with business performance and shareholder outcomes over time, explain the specific reward outcomes and performance for FY2018 and set out the Board's reasoning and considerations around how the remuneration framework reflects and supports the business strategy. The report also explains the framework and governance that we have in place to ensure effective remuneration practices.

To support this objective, this report includes an overview of our performance and remuneration outcomes, as well as a summary of our governance practices. The report has been prepared and audited against the disclosure requirements of the *Corporations Act 2001* (Cth).

Information within this report has been laid out in the following sections:

Section		Page
1	Key Management Personnel	24
2	Executive KMP Remuneration Framework and Reward Mix	25
3	FY2018 Performance and Remuneration Summary	28
4	FY2018 Executive KMP Incentive Plans Detailed Outcomes	31
5	Non-executive Directors	35
6	Remuneration Governance	36
7	Statutory Remuneration Disclosures	37

Directors' report – Remuneration report (audited)**1 Key Management Personnel**

AusNet Services' KMP are assessed each year and comprise the Directors of the company and Senior Executives. KMP have authority and responsibility for planning, directing and controlling the activities of AusNet Services.

Those that are assessed to be KMP for FY2018 are:

Name	Position	Date Appointed as KMP
Non-executive Directors		
Peter Mason	Non-executive Chairman (Appointed as Chairman 11 May 2016)	March 2016
Ralph Craven	Non-executive Director	January 2014
Sally Farrier	Non-executive Director	January 2014
Ho Tian Yee	Non-executive Director	September 2008
Robert Milliner	Non-executive Director	July 2015
Nora Scheinkestel	Non-executive Director	November 2016
Sun Jianxing	Non-executive Director	January 2014
Tan Chee Meng	Non-executive Director	May 2016
Executive KMP		
Nino Ficca ¹	Managing Director	September 2005
Chad Hymas	Executive General Manager, Commercial Energy Services	April 2013
Adam Newman	Executive General Manager and Chief Financial Officer	March 2013
Alistair Parker	Executive General Manager, Regulated Energy Services	April 2013
Mario Tieppo	Executive General Manager, Technology	September 2013

¹ Mr Ficca was appointed as Managing Director upon listing on the Australian Stock Exchange.

Former Key Management Personnel:

Tina McMeckan retired from the Board as a Non-Executive Director and ceased to be a KMP effective 20 July 2017.

Directors' report – Remuneration report (audited)**2 Executive KMP Remuneration Framework and Reward Mix**

The following table summarises AusNet Services' Executive KMP remuneration objectives and design principles and an overview of the arrangements in place during FY2018:

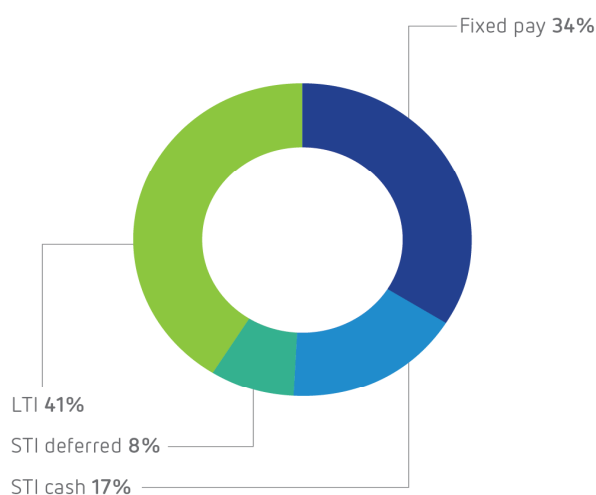
Remuneration Objectives & Principles						
The objective of our approach to Executive KMP remuneration structure is to allow the specific considerations of long term factors, short term performance and fixed remuneration to attract and retain senior executives to deliver upon our strategic and business plans, while ensuring that remuneration outcomes are linked to company performance and shareholder outcomes.						
Board decisions on remuneration matters, including the design of the executive remuneration framework, how the framework is applied, how performance measures and targets are set and how outcomes are determined, are guided by principles around:						
Aligned to strategy and business need	Market competitive	Performance-driven	Simple and transparent	Position in employee value proposition	Reflects fairness across the business	Effective Governance
Remuneration structure - The Board believes the three-component structure of remuneration arrangements, with fixed annual remuneration, short term incentive and long term incentive components, is effective at this stage in the business' transformation and growth aspirations.						
FY2018	Fixed Annual Remuneration	Short Term Incentive (at risk)			Long Term Incentive (at risk)	
Approach	Set at a market competitive level to attract and retain key talent and with regard to the complexity of the role, skills and competencies required.	- For the Managing Director, STI outcome delivered as two thirds cash and one-third deferred equity rights with two-year deferral period. - Other Executive KMP receive cash STI payment, based on performance over the year.			KMP LTI delivered as performance rights that vest over a three year period if relevant performance hurdles are achieved.	
Purpose and rationale	Attracts and retains executives with the capability and experience to deliver outcomes.	- Ensures executive remuneration is aligned with financial and business performance, and therefore align with shareholder interests and outcomes. - Emphasis on financial performance reinforces strategic focus on performance.			- Motivates and rewards sustainable superior performance, which is aligned with the interests of shareholders. - The three-year vesting period aligns executive performance and decision-making with longer term outcomes and assists in the retention of key executives.	
Opportunity		Expressed as percentage of fixed annual remuneration (performance range +/-50 per cent of target opportunity).			Expressed as percentage of fixed annual remuneration.	
		Threshold	Target	Maximum	Threshold	Maximum
Managing Director		37.5%	75%	112.5%	36%	120%
Other Executive KMP		20%	40%	60%	15%	50%

Directors' report – Remuneration report (audited)**2 Executive KMP Remuneration Framework and Reward Mix (continued)**

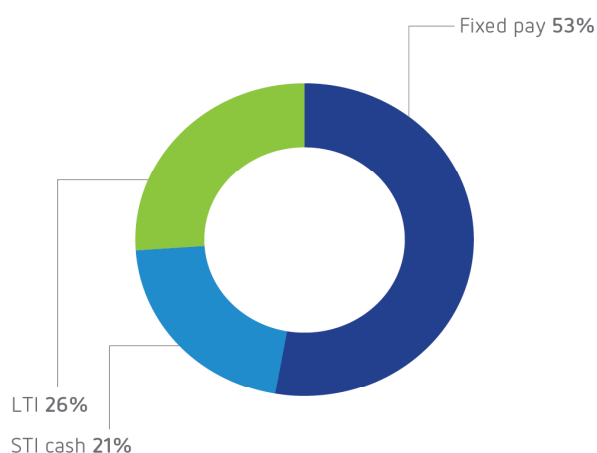
FY2018	Fixed Annual Remuneration	Short Term Incentive (at risk)	Long Term Incentive (at risk)
Performance review and measures	- Performance review conducted annually. - FAR reviewed periodically against market rates for comparable roles. - No guaranteed FAR increases in Executive KMP contracts of employment.	- STI scorecard KPIs include selected financial and non-financial measures: - Two financial measures - EBITDA and Return on Equity reflect ability to grow revenues, exhibit cost control and effectively manage working capital. - Non-financial measures cover safety, customer outcomes and performance against strategic initiatives (individual specific). - Total STI subject to gateway performance criteria relating to cash flow from operations and safety performance.	- LTIP KPIs are Relative Total Shareholder Return (50 per cent), Earnings per Share (EPS) growth (25 per cent) and Return on Invested Capital (25 per cent). - Total Shareholder Return (TSR) measures returns generated from the investments made against performance of comparator group. - EPS provides tangible measure of shareholder value creation. - Return on invested capital (ROIC) measures returns generated from investments in operations.

The Managing Director and Executive KMP total reward mix, inclusive of fixed annual remuneration, and assuming 100 per cent STI performance outcome and 100 per cent LTI vesting outcome, at the time of grant, is shown below:

MANAGING DIRECTOR



OTHER EXECUTIVE KMP



Directors' report – Remuneration report (audited)**2 Executive KMP Remuneration Framework and Reward Mix (continued)****Remuneration and Other Terms of Employment**

Remuneration and other terms of employment for the Managing Director are set out in the table below.

Managing Director	
Term of Agreement	Permanent, subject to six months' notice of termination by either party.
Fixed annual remuneration	Fixed annual remuneration includes base salary and superannuation. As at 31 March 2018, FAR was \$1,300,000. Fixed annual remuneration is reviewed periodically against market by the Remuneration Committee and the Board, with no guarantee of annual increase.
Short-term incentive (at risk)	Annual short-term incentive of 75 per cent of FAR for on-target performance with a range of potential STI vesting range commencing at 37.5 per cent of FAR for threshold performance to 112.5 per cent of FAR at maximum performance. STI is delivered as two-thirds in cash payment and one-third in deferred rights, with a two-year deferral period. Unless otherwise determined by the Board, STI awards are forfeited if terminated for cause or resignation prior to vesting date.
Long-term incentive (at risk)	Long-term incentive of 120 per cent of FAR for maximum performance, based on the performance measures of TSR, EPS and ROIC. Threshold performance vesting commences at 36 per cent of FAR. Treatment of LTI awards are stated in the LTI plan rules and the specific terms of grant. In general, unless otherwise determined by the Board, LTI awards lapse upon resignation or termination for cause and for termination without cause will remain on foot on a pro-rata basis, to be tested against the relevant performance conditions at the vesting date. Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years. Clawback provisions apply in Plan Rules.
Termination benefits	Termination benefits calculated at three weeks' pay for every year of service paid at the Managing Director's FAR rate and capped at six months.

The major provisions contained in the services agreements of the other Executive KMP are substantially the same as those that apply to the Managing Director. However, variable reward opportunity differs for Executive KMP being short-term incentive opportunity of 40 per cent of FAR (threshold 20 per cent and maximum of 60 per cent of FAR) for on-target performance and long-term incentive of 50 per cent of FAR for maximum performance (15 per cent at threshold).

Directors' report – Remuneration report (audited)**3 FY2018 Performance and Remuneration Summary**

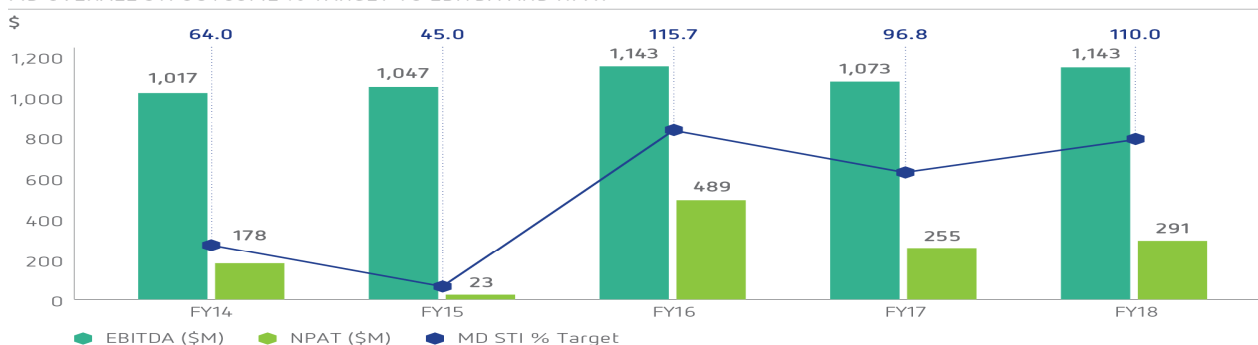
Our executive remuneration framework is designed to align executive rewards with performance achieved, and how benefits flow to our shareholders.

The business has delivered strong underlying financial performance for FY2018, which has resulted in above target STI outcomes and LTI vesting. The table and figures below show key financial performance outcomes for the current and past reporting periods and the correlation between the levels of business performance achieved and Managing Director STI and LTI pay outcomes.

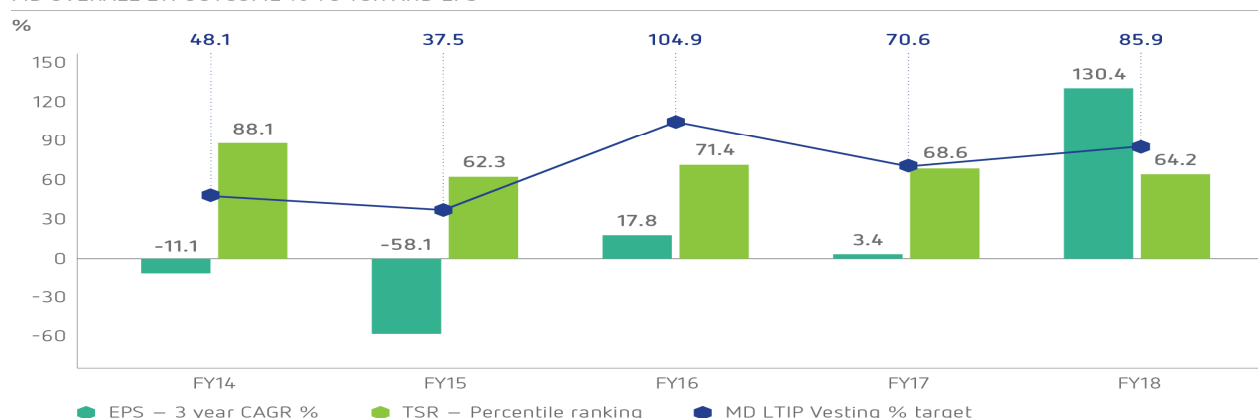
Financial performance	FY14 ^{1,2}	FY15 ³	FY16 ⁴	FY17 ⁵	FY18
NPAT (\$m) ^{1,3,4}	178	23	489	255	291
EBITDA (\$m)	1,017	1,047	1,143	1,073	1,143
Return on Equity (%)	5.3	1.0	14.0	7.0	8.0
Total Shareholder Return (TSR) Percentile Ranking - relative performance	88.1	62.3	71.4	68.6	64.2
Earnings Per Share (EPS) (%) 3 year compound annual growth rate (CAGR) ²	(11.1)	(58.1)	17.8	3.4	130.4
Return on Invested Capital (ROIC) (%) 3 year average	4.97	4.58	4.82	4.89	5.67
Share price at 31 March (\$)	1.310	1.460	1.490	1.685	1.675
Dividends (cents per share) ⁵	8.36	8.36	8.53	9.80	9.25
STI % ⁶	80.0	56.2	127.1	107.6	N/A
STI vested as % of target – MD	64.0	45.0	115.7	96.8	110.0
LTI vested as % of target – MD	48.1	37.5	104.9	70.6	85.9
LTI vested as % of target – other Executive KMP	50.0	33.5	120.3	76.1	85.9

1. FY2014 net profit after tax includes a net charge of \$86.7 million for the amount payable in respect of the Section 163AA dispute, \$50.0 million payable for the termination of the Management Services Agreement (MSA) and \$7.7 million in restructuring costs associated with the Termination Deed.
2. FY2014 EPS measure was adjusted to exclude the \$50 million payable for the termination of the MSA at the Board's discretion.
3. FY2015 net profit after tax includes the recognition of \$142.6 million in income tax expense for the settlement with the Australian Taxation Office (ATO) in relation to the intra-group financing audit, the recognition of \$84.1 million net exposure in relation to the intellectual property tax dispute with the ATO and the recognition of a provision for Advanced Metering Infrastructure (AMI) customer rebates of \$22.8 million (after tax).
4. FY2016 net profit after tax includes one-off tax benefits of \$163.1 million associated with our corporate restructure (\$135.0 million) and settlement of the IP dispute with the ATO (\$28.1 million).
5. FY2017 dividends consist of 8.80 cents per share ordinary dividend plus 1.0 cents per share special dividend.
6. Corporate STI Scorecard outcome from FY2014 to FY2017, FY2018 has moved to an individual STI scorecard for each employee.

MD OVERALL STI OUTCOME % TARGET TO EBITDA AND NPAT



MD OVERALL LTI OUTCOME % TO TSR AND EPS



Directors' report – Remuneration report (audited)**3 FY2018 Performance and Remuneration Summary (continued)****Key remuneration outcomes for FY2018:**

Executive Fixed Remuneration	There were no changes to fixed annual remuneration (FAR) of the Managing Director or other Executive KMP during FY2018.
Managing Director 2017 Long Term Incentive Plan grant (FY2018-FY2020 performance period)	As outlined in the FY2017 remuneration report, and approved by shareholders at the July 2017 AGM, the Managing Director's 2017 LTI grant increased to 120 per cent of fixed remuneration at maximum vesting. This adjustment was the last element of the changes made to the Managing Director's remuneration arising from the review in FY2016. The 2017 LTI grant will be tested at the conclusion of the three year performance period being FY2018 - FY2020.
FY2018 Short Term Incentive Plan outcomes	FY2018 was the first year of our new STI plan based on a single scorecard, providing a transparent link between performance achieved and payments made, and a larger weighting on financial performance. For the Managing Director, the target STI opportunity was set at 75 per cent of fixed remuneration and for other Executive KMP set at 40 per cent of fixed remuneration. The MD's STI payment was 110.0 per cent of target. Other Executive KMP STI scorecard outcomes varied between 105.0 and 110.0 per cent of target. The business delivered above target performance on the majority of key performance metrics, including all financial metrics. As a result, STI payments for the Managing Director and Executive KMP increased relative to FY2017. Further details of the FY2018 STI plan and outcomes can be found in section 4.
Vesting of 2015 Long term Incentive Plan awards (FY2016-FY2018 performance period)	The LTI awards granted in 2015, applicable for the FY2016 – FY2018 performance period, were tested against performance criteria (relative total shareholder return, earnings per share growth and return on invested capital), resulting in 85.9 per cent vesting. The LTI vesting outcome reflects the sound financial performance across the FY2016 to FY2018 performance period in terms of relative total shareholder return (64th percentile), compound annual earnings per share growth (EPS CAGR) of 130 per cent and return on invested capital of 5.67 per cent. The Board has a policy not to adjust statutory performance outcomes for significant items. This impacts payments made under our incentive programs – sometimes negatively and sometimes positively. During FY2018, this impacted the LTI vesting; FY2015 earnings per share, which is the baseline for calculating earnings growth over the FY2016-FY2018 performance period, were reduced by a significant tax settlement. Consistent with the Board's approach not to make adjustments for purposes of measuring LTI performance, EPS growth from FY2016 to FY2018 was therefore significant. Further details of the LTI plan and LTI vesting can be found in section 4.
2018 Long Term Incentive plan grant (FY2019-FY2021 performance period)	During FY2018 the Board reviewed the KPI and performance measures of the existing LTI program. The review identified and considered alternative KPI measures. The Board concluded that there was no compelling reason to move away from the existing measures of TSR, EPS and ROIC. However, going forward, the LTI effectiveness will be enhanced by altering LTI performance hurdles, vesting scales and the TSR comparator group as follows: • Retention of the TSR threshold performance level at the 50th percentile ranking and maximum performance level at 75th percentile ranking; • Alignment of the nominated comparator group for TSR to the ASX 100 (without exceptions) replacing the previous ASX 200 comparator group; • The maximum performance required for full vesting of the EPS KPI will increase from 5 per cent CAGR to 7.5 per cent CAGR over the three year performance period; and • Vesting for the ROIC KPI will commence at 0 per cent at threshold performance and based on a linear approach to 100 per cent at maximum performance. Previously threshold performance resulted in a 50 per cent vesting for this KPI. Shareholders will have the opportunity to vote on the proposed LTI grant for the Managing Director at the Annual General Meeting to be held on 19 July 2018.

Directors' report – Remuneration report (audited)**3 FY2018 Performance and Remuneration Summary (continued)****Key remuneration outcomes for FY2018: (continued)**

Non-Executive director fees	Total remuneration paid to Non-Executives directors for FY2018 was \$1.83 million, which represents 81.2 per cent of the fee cap of \$2.25 million. No increases were made to our base non-executive director fees and Committee fees during FY2018. In accordance with the policy to review fees, effective 1 October 2017 the Board Chairman's annual fee was increased by 10 per cent (from \$390,000 to \$430,000) to align with other companies of a similar size and complexity. The Chairman receives no additional fees for membership of Board Committees.
------------------------------------	--

FY2018 actual remuneration paid to Executive KMP (unaudited)

The table below sets out the actual remuneration paid to current Executive KMP over the past two reporting years. This remuneration includes annual fixed remuneration, STI cash paid, the value of deferred STI equity in respect to the Managing Director, and the value of the 2015 LTI awards that vested in FY2018.

The Managing Director and Executive KMP did not receive any fixed remuneration increases during FY2018. Actual remuneration paid to Mr Parker and Mr Hymas in FY2017 represent an increase in fixed remuneration due to promotion as a result of the July 2016 organisational restructure with the full effect of these increases reflected in FY2018.

Note that the following table is non-IFRS information and is unaudited.

Executive KMP	FY	Fixed Annual Remuneration	Short Term Incentive Paid	STI Deferred (2 years)	Retention / ex-gratia	LTI Vested ²	Total
Nino Ficca	2018	1,300,000	715,000	357,500		1,064,331	3,436,831
	2017	1,300,000	629,460	314,730		917,930	3,162,120
Chad Hymas	2018	450,000	198,000			161,941	809,941
	2017	422,040	154,399			171,203	747,642
Adam Newman ¹	2018	692,835	290,991			332,603	1,316,429
	2017	692,835	253,467		126,733	263,589	1,336,624
Alistair Parker	2018	500,000	210,000			200,644	910,644
	2017	479,745	175,510			190,225	845,480
Mario Tieppo ¹	2018	425,360	187,158			203,699	816,217
	2017	425,360	164,767		212,680	161,828	964,635

1. Mr Newman received a higher STI Award relating to his participation in the company's FY2017 Executive Retention Plan, which ceased on 31 March 2017. Mr Tieppo received an additional incentive payment related to the vesting of his metering remediation program incentive plan. Both these items were fully disclosed in the FY2017 Remuneration Report.

2. LTI vesting is calculated based on the number of performance rights vested multiplied by the share price at 31 March 2018 being \$1.675.

Statutory accounting disclosures of remuneration which are shown in Section 7 of this report differ from the actual pay received due to the accounting treatment of leave provisions and unvested LTI awards.

Directors' report – Remuneration report (audited)**4 FY2018 Executive KMP Incentive Plans Detailed Outcomes****FY2018 Short-Term Incentive Plan**

In FY2018, the Board introduced a simplified STI Plan for the Managing Director, Executive KMP and broader employee population. The aim of the new plan was to increase transparency and simplicity and to better align with the company's overall business strategy.

The STI Plan uses a single additive scorecard with a balance of financial and non-financial measures, which replaced the previous dual corporate and personal scorecard approach. The STI Plan has also been designed with higher weighting towards financial-based KPIs, along with the introduction of both financial and safety-based gateways. The combination of higher financial KPI weightings and gateways helps to ensure STI payments are only made when shareholders also benefit.

The maximum STI opportunity was also reduced from 196 per cent of target opportunity to a maximum of 150 per cent. Key features of the FY2018 STI Plan are set out as follows:

STI Opportunity	Executive STI outcomes are determined by multiplying the outcome of each Executive's STI scorecard by the participant's STI opportunity and is expressed as a percentage of the participant's FAR at target performance. Managing Director – 75 per cent of FAR at target, 37.5 per cent of FAR at threshold performance and 112.5 per cent of FAR at maximum performance. Other Executive KMP – 40 per cent of FAR at target, 20 per cent of FAR at threshold performance and 60 per cent of FAR at maximum performance.
------------------------	--

STI Performance gateway & discretion	The Board retains the flexibility to exercise its discretion over all elements of the STI plan including (but not limited to) the setting of KPI performance targets and ranges, selection of KPIs weightings, and any assessed performance outcomes. Notwithstanding the overall assessment of each scorecard, STI payments generated as a result of the performance of any of the KPIs will only be considered in circumstances where the cash flow from operational performance provides the company with the ability to pay shareholder dividends in accordance with AusNet Services' dividend guidance targets for the relevant year. In the event of a fatality, the Board retains complete discretion to adjust any STI award for the Managing Director, other Executive KMP or other employees. The Board will retain the discretion to make some or all of the STI available for payment to these parties depending on the circumstances of the event.
---	--

STI Performance measures and weightings	Financial		Non-financial		
	EBITDA	Return on equity	HSEQ Index	Customer Index	KPIs aligned to strategic priorities
	40.0%	20.0%	5.0%	10.0%	25.0%

The KPIs are designed to reward achievement of both financial targets and non-financial objectives that drive the execution of AusNet Services' strategy and shareholder return.

KPIs aligned to strategic priorities are set by the Board for the Managing Director. For FY2018 the Board set the Managing Director's strategic KPIs to be aligned to our on-going Regulated Energy Services business cost efficiency program and growth in our unregulated asset base across our Commercial Energy Services business.

For his executive team, KPIs reflecting a cascade of strategic priorities as appropriate for each role were applied.

STI Delivery mechanism	Two thirds of the Managing Director's STI award is paid in cash with one third deferred into shares held over a two-year period. STI is paid in cash for all other executives.
-------------------------------	--

Directors' report – Remuneration report (audited)**4 FY2018 Executive KMP Incentive Plans Detailed Outcomes (continued)*****FY2018 Managing Director STI scorecard performance outcomes***

The Board assessed the performance gateways for STI payment and performance against the MD's STI scorecard.

Performance against both safety and financial gateway tests was positive. However, the Board exercised its discretion in relation to the assessment of the HSEQ Index – see below.

The Managing Director's FY2018 STI scorecard assessment is shown below. This assessment resulted in an outcome of 110.0 per cent of target performance or 76.8 per cent of maximum STI opportunity.

The company's strong financial performance dominated this outcome and accounts for the majority of the total scorecard outcome.

Note that while the STI design allows for a total maximum opportunity of 150 per cent of target, for FY2018 the Managing Director's maximum STI opportunity was capped at 143.25 per cent to reflect the Regulated Cost Efficiency KPI having no outperformance opportunity.

Managing Director FY2018 STI scorecard			FY2018 performance outcome		
Key Performance Indicators	KPI Wtg (at target)	Measure	Threshold	Target	Maximum
			50%	100%	150%
Financial	40.0%	EBITDA			
	20.0%	Return on equity			
Non-Financial	5.0%	HSEQ Index			
	10.0%	Customer Index			
Strategic	12.5%	Regulated Cost Efficiency			
	12.5%	Unregulated business growth			

The HSEQ Index performance outcome was assessed at 95 per cent of target. However, while most elements of the index performed strongly, the business deemed that the level of injuries of >10 days lost time duration (n=7) was not acceptable. Upon management's recommendation, the Board exercised its discretion to moderate the final outcome to a threshold (50 per cent) level of performance to highlight the importance of aligning underlying safety performance with STI rewards.

FY2018 Executive KMP STI scorecard performance outcomes

Executive KMP scorecards include the same financial and non-financial weightings as for the Managing Director, with individual strategic KPIs cascaded for each role.

The average FY2018 STI outcome for other Executive KMP was 107.5 per cent of target and 75 per cent of maximum STI opportunity.

Directors' report – Remuneration report (audited)**4 FY2018 Executive KMP Incentive Plans Detailed Outcomes (continued)****Long-Term Incentive Plan for FY2018 to FY2020 performance period**

The following describes our LTI Plan design for the 2017 LTI grant, with the three-year performance period commencing 1 April 2017 and ending on 31 March 2020 (FY2018 to FY2020).

These grants were made to Executive KMP in May 2017. The Managing Director's grant was made shortly after shareholders voted and elected to approve his grant at our AGM held in July 2017.

Design aspect	Commentary		
Eligibility	Executive KMP. The Board may in its discretion invite additional employees who are in a position to influence long-term shareholder value to participate in the LTI plan.		
Opportunity	The LTI award is calculated as a percentage of the participant's FAR as at the grant date. The number of performance rights issued is the percentage of FAR divided by the volume weighted average price (VWAP) over the five trading day period commencing on the date AusNet Services released its FY2017 results. Managing Director – 120 per cent of FAR at maximum performance Other Executive KMP – 50 per cent of FAR at maximum performance		
Performance measures	Total Shareholder Return (TSR)	Earnings Per Share (EPS)	Return on Invested Capital (ROIC)
	The comparator group used for the TSR performance measure is the S&P/ASX 200 index. In assessing whether performance hurdles have been met, independent data is reviewed by the Board indicating TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR growth achieved is given a percentile ranking, having regard to our performance compared with the performance of the comparator group.	The EPS growth measure is based on achieving a nominal compound annual growth (CAGR) rate over the three-year performance period. EPS is calculated by taking the company's net profit after tax divided by the weighted average number of shares on issue.	The ROIC measure is designed to measure how effectively we use funds (borrowed and owned) invested in our operations. ROIC is calculated over a three year performance period and equals (NPAT + Finance Cost adjusted for Tax) / (Average Equity + Average Debt).
Weighting, targets and vesting scales	Weighting 50%	Weighting 25%	Weighting 25%
	Threshold Performance 50th percentile - 35 per cent vesting	Threshold Performance 2.5 per cent CAGR - 0 per cent vesting	Threshold Performance 4.35 per cent - 50 per cent vesting
	Maximum performance 75th percentile - 100 per cent vesting	Maximum performance 5.0 per cent CAGR - 100 per cent vesting	Maximum performance 4.55 per cent - 100 per cent vesting
	The vesting of each of the above KPIs will occur on a linear basis between the threshold and maximum ranges.		
Delivery mechanism	The LTI award is granted as performance rights, subject to performance against the above measures and continued employment. The Board retains the right to vary at its discretion the number of performance rights that vest.		
Unvested rights and dividends	No dividends or dividend equivalent payments accrue to unvested rights during the performance period.		
Change of Control	If a Change of Control Event occurs, or the Board determines such event is likely to occur, the Board may in its absolute discretion determine the treatment of any or all of the Participant's unvested Performance Rights.		
Clawback arrangements	The Board may determine that any awards be clawed back in the event performance measures have been satisfied by the participant as a result of fraud, dishonesty or breach of obligations which would not otherwise be satisfied.		

Directors' report – Remuneration report (audited)**4 FY2018 Executive KMP Incentive Plans Detailed Outcomes (continued)****2015 LTI grant (FY2016 to FY2018 performance period) outcomes**

The Board assessed performance over the FY2016 to FY2018 performance period against the three measures (relative TSR, EPS growth and ROIC) set out in the 2015 LTI plan. For participants to qualify for an award under the ROIC measure, a safety performance gateway of zero fatalities for our employees in the 12-month period prior to vesting must be achieved.

The parameters of the 2015 LTI Award are summarised below:

Opportunity	The LTI award is calculated as a percentage of the participant's FAR as at the grant date, being 1 April 2015. The number of performance rights issued is the percentage of FAR divided by the volume weighted average price (VWAP) over the five trading day period commencing on the date AusNet Services released its FY2015 results. The 2015 LTI grant price was therefore \$1.4692. Managing Director – 100 per cent of FAR (at grant date) at maximum performance. Other Executive KMP – 50 per cent of FAR (at grant date) at maximum performance.
--------------------	---

Performance measures	Total Shareholder Return (TSR)	Earnings Per Share (EPS)	Return on Invested Capital (ROIC)
Weighting, targets and vesting scales	Weighting 50%	Weighting 25%	Weighting 25%
	Threshold Performance 50th percentile - 35 per cent vesting	Threshold Performance 2.5 per cent CAGR – nil vesting	Threshold Performance 5.08 per cent - 50 per cent vesting
	Maximum performance 75th percentile - 100 per cent vesting	Maximum performance 5.0 per cent CAGR - 100 per cent vesting	Maximum performance 5.28 per cent - 100 per cent vesting
	The vesting outcome for each of the above KPIs occurs on a linear basis between the threshold and maximum performance targets.		
Performance Outcome	64.2 percentile ranking	130.4 per cent	5.67 per cent

The above outcome resulted in an overall vesting of 85.9 per cent of maximum (100 per cent) opportunity.

The following table sets out the overall 2015 LTI grant performance and vesting outcomes. These grants were made to Executive KMP in May 2015. The Managing Director's grant was made shortly after shareholders voted and elected to approve his grant at our AGM held in July 2015:

2015 LTI Grant Key Performance Measures	MD/ Executive KMP weighting	Threshold (30%)	Maximum (100%)
Relative Total Shareholder Return	50%		
Earnings per Share	25%		
Return on Invested Capital	25%		
At Maximum	100%		

The shares vested to the Managing Director and other KMP under the 2015 LTI plan are proposed to be allocated to each executive on 18 May 2018, with each recipient subject to the AusNet Services Guidelines for Dealing in Securities and applicable laws, to sell, transfer or otherwise dispose of their securities.

Directors' report – Remuneration report (audited)**5 Non-Executive Directors**

Non-Executive Director remuneration is designed to ensure that Directors maintain objectivity and independence and that the Board attracts Directors with the necessary skills, expertise and capability.

The following describes our approach to Non-Executive Director remuneration:

NED fee element	Commentary
Fees	The remuneration of Non-executive Directors consists of Directors' fees and Committee fees. The Board's policy is that fee levels are set having regard to independent performance advice and fees paid by comparable companies, and that fees paid are not linked to the performance of AusNet Services to maintain objectivity and independence. In accordance with the constitution of AusNet Services Ltd, Non-executive Directors may also be paid additional fees for special duties or exertions.
Total fee pool for remuneration of Non-executive Directors	The total amount provided to all Non-executive Directors (including any additional fees for special duties or exertions) must not exceed in aggregate in any financial year the amount approved by shareholders in a general meeting. The shareholders approved a total remuneration pool for Non-executive Directors of \$2,250,000 per year at the Annual General Meeting held on 21 July 2016.
Equity based compensation	Non-executive Directors are not provided with any form of equity-based compensation.
Business related expenses	Non-executive Directors are entitled to be reimbursed for all business-related expenses, including travel on company business, as may be incurred in the discharge of their duties.
Retirement benefits	Non-executive Directors are not provided with any form of retirement benefit. Fees paid are inclusive of superannuation contributions made on behalf of the Non-executive Directors in accordance with our statutory superannuation obligations.
Review of fee levels and approach to Non-Executive Director fees	The Remuneration Committee regularly reviews the fees payable to Non-executive Directors, considering market practices, governance developments and the time commitment and responsibilities involved in carrying out their duties. In general it has determined that fees should be reviewed at least every three years, as this frequency helps to ensure that the fee levels remain aligned with the market. Consistent with this approach, and given Board Member and Committee fees were adjusted in July 2015, Non-executive Director fees were reviewed in FY2018. The review highlighted that the Chairman's fee was below market benchmark ranges for companies of a similar size and complexity, but that member and committee fees were within market range. Therefore, the Board increased the Chairman's annual fee by 10.3 per cent from \$390,000 to \$430,000, effective 1 October 2017.

The annual fees payable to Non-executive Directors of AusNet Services and approved by the Board (inclusive of statutory superannuation) for the financial year ended 31 March 2018 are set out in the table below. It is not possible to allocate fees to individual entities within the AusNet Services Group.

Role ¹	Chair fee (1 April 2017 to 30 September 2017)	Chair fee (1 October 2017 to 31 March 2018)	Member fee
Board	\$390,000	\$430,000	\$165,000
Audit and Risk Management Committee	\$40,000	\$40,000	\$20,000
Remuneration Committee	\$35,000	\$35,000	\$17,500
Nomination Committee	included in base fee	included in base fee	included in base fee

1. In addition to the fees noted above, Non-executive Directors may also be paid fees for special duties or exertions.

Directors' report – Remuneration report (audited)

6 Remuneration Governance

AusNet Services' approach to remuneration governance recognises that remuneration arrangements are important enablers and drivers of business performance. Our approach is summarised as follows:

Clear roles allow for efficient decision-making

The Board and Committee Charters have clear roles for remuneration issues to be considered by management, the Remuneration Committee and the Board.

- The full Board has oversight of AusNet Services' remuneration arrangements. It is accountable for the remuneration of executives and of Non-executive Directors, and the policies and processes governing remuneration.
- The Board has developed and applies Remuneration Principles to serve as a reference point on decision making on remuneration matters. These principles have been in place since 1 January 2016.
- Management provides information and insights on contemporary remuneration practices and obtains remuneration information from external advisors to assist the Remuneration Committee.
- The Remuneration Committee is delegated to review and make recommendations to the Board on matters of remuneration frameworks and structure, non-executive remuneration and executive remuneration, including fixed and variable pay elements. The Remuneration Committee Charter was last reviewed by the Board in March 2017.
- The Board assesses the performance of the Managing Director and approves all related reward outcomes.

Continuous development, transparency and monitoring of market practices

- Directors and Management actively seek opportunities to engage with peers.
- Directors regularly receive and review current remuneration market practices and emerging trends and assess their relevance to AusNet Services.
- In order to satisfy share-based incentive awards, shares are purchased on market and held in AusNet Services' Employee Share Plan Trust. However, as a matter of good corporate governance, AusNet Services seeks shareholder approval for grants of equity to the Managing Director at the AGM.
- The Board's policy is not to adjust statutory performance outcomes for significant items. This impacts payments made under our incentive programs – sometimes negatively and sometimes positively.
- All executives receiving LTI awards are subject to AusNet Services' Guidelines for Dealing in Securities and applicable laws regarding the sale, transfer or disposal of their securities.

The use of external advisors to support informed and independent decision-making

- The Remuneration Committee formally appointed Ernst and Young (EY) as its Remuneration Advisor in October 2015 and engages other external advisors as required.
- No remuneration recommendations were provided to the Remuneration Committee or the Board by EY during the reporting period.
- Advice provided to the Remuneration Committee by EY during the reporting period focussed on overall market practices in relation to executive benchmarking, LTI design, approach and frameworks and Non-Executive benchmarking.

Stakeholder engagement

- The Board's stakeholder engagement plan includes regular remuneration related interactions and formal meetings, which help to inform the Board's thinking and decisions on remuneration.
- A calendar of regular engagement and feedback has been established throughout the year to support planning of remuneration activities.

Directors' report – Remuneration report (audited)**7 Statutory Remuneration Disclosures****Executive KMP Statutory Remuneration**

The following table sets out each element of total reported remuneration for Executive KMP, based on statutory remuneration disclosure requirements.

		Short-term		Other short-term benefits ^{2,5}			Post-employment	Equity based payments ³	Termination benefits	Other long-term benefits ^{4,5}		Total
	FY	Cash salary and fees ⁵	STI ¹	Annual leave Taken	Balance net change	Car parking	Superannuation			Long service leave Taken	Balance net change	
Nino Ficca	2018	1,055,302	1,072,500	127,364	(40,066)	10,541	119,028	712,997	-	-	32,302	3,089,968
	2017	1,112,677	944,190	74,537	36,119	9,636	125,593	1,016,843	-	-	216,763	3,536,358
John Azaris	2017	96,661	40,282	6,091	9,381	2,409	11,604	149,008	329,621	-	6,867	651,924
Chad Hymas	2018	402,203	198,000	21,169	12,026	10,541	24,976	98,362	-	-	11,184	778,461
	2017	382,492	154,399	14,655	44,879	9,635	25,000	193,164	-	-	54,569	878,793
John Kelso	2017	94,561	40,592	-	12,931	2,409	9,791	136,908	234,596	5,647	(406)	537,029
Adam Newman	2018	614,101	290,991	46,058	5,309	10,541	24,976	184,766	-	-	17,321	1,194,063
	2017	575,720	380,200	84,439	(31,848)	9,635	25,000	308,602	-	-	18,179	1,369,927
Alistair Parker	2018	447,691	210,000	26,290	18,240	10,541	27,429	103,188	-	-	12,489	855,868
	2017	390,732	175,510	38,863	(1,420)	9,635	32,510	209,785	-	21,379	4,235	881,229
Mario Tieppo	2018	335,934	187,158	62,892	(34,288)	10,541	24,976	97,593	-	-	10,634	695,440
	2017	362,011	164,767	13,806	19,891	9,635	23,467	181,687	-	-	119,708	894,972
Total Executive KMP	2018	2,855,231	1,958,649	283,773	(38,779)	52,705	221,385	1,196,906	-	-	83,930	6,613,800
	2017	3,014,854	1,899,940	232,391	89,933	52,994	252,965	2,195,997	564,217	27,026	419,915	8,750,232

1. FY2018 STI includes amounts in respect of performance for the year ended 31 March 2018. These amounts have been approved and will be payable in June 2018.

2. Other short-term benefits include car parking benefits and the accrual of annual leave entitlements. The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.

3. As the performance period over which the LTI awards vest is three years, the amount included in Equity-based payments is one-third of the amount estimated to vest at the end of the performance period for each outstanding award. This estimated amount is based on certain assumptions regarding the achievement of performance targets, which are reviewed and adjusted annually. Any adjustments to previously recognised amounts, both positive and negative, are included in the current year. The actual amounts vested under these awards will not be known until the end of the performance period.

4. Other long-term benefits include the accrual of long service leave entitlements.

5. The above table represents the accounting value of KMP remuneration, calculated in accordance with accounting standards. As a result, annual leave and long service leave entitlements are recognised as remuneration when they accrue rather than when they are taken. This has the impact of reducing the cash salary and fees remuneration disclosed in the table above when these leave entitlements are ultimately taken by the KMP. In addition, any changes to the value of leave entitlements (for example, because of changes in FAR or long service leave entitlements not vesting) are recognised as remuneration, either positive or negative, in the year that the change occurs. These accounting adjustments to remuneration values are reflected in the Cash salary and fees, Other short-term benefits and Other long-term benefits disclosed in the table.

Directors' report – Remuneration report (audited)**7 Statutory Remuneration Disclosures (continued)****Short-Term Incentive**

The percentage of the available STI that was paid, or that vested, in the financial years ended 31 March 2017 and 31 March 2018, inclusive of the percentage of target that was lapsed are set out below. FY2018 STI outcomes were driven by strong financial performance relating to EBITDA and ROE.

	FY2018 STI				FY2017 STI				
	STI payable (\$) ¹	STI deferred (\$) ²	Total STI payable (\$)	Percentage of target payable/ (lapsed)		STI paid (\$)	STI deferred (\$) ³	Total STI paid (\$)	Percentage of target paid/ (lapsed)
Nino Ficca	715,000	357,500	1,072,500	110.0	-	629,460	314,730	944,190	96.8 (3.2)
Chad Hymas	198,000	-	198,000	110.0	-	154,399	-	154,399	91.5 (8.5)
Adam Newman	290,991	-	290,991	105.0	-	380,200	-	380,200	91.5 (8.5)
Alistair Parker	210,000	-	210,000	105.0	-	175,510	-	175,510	91.5 (8.5)
Mario Tieppo	187,158	-	187,158	110.0	-	377,447	-	377,447	98.6 (1.4)

1. Incentive payments for the performance year ended 31 March 2018 have been approved and will be payable in June 2018.
2. One third of the Managing Director's FY2018 award will be deferred into share rights to be held for a period of two years. STI is paid in cash for all other executives.
3. Under the terms of the Deferral Plan, the deferred STI component of Mr Ficca's STI was allocated by way of deferred rights to be held for a period of two years. The number of deferred rights issued was 179,343, being \$314,730 divided by share price of \$1.7549. The share price was calculated based on the volume weighted average price (VWAP) over the five trading day period commencing on the date AusNet Services released its FY2017 results.

Long-Term Incentive*FY2018 LTI vesting outcomes*

The performance rights vesting in FY2018 were granted to the Managing Director and other Executive KMP under the terms and conditions of the 2015 grant. The performance outcome, outlined in section 4 of this report for the 2015 grant, resulted in 85.9 per cent of performance rights vesting as shown in the table below.

	2015 LTI Performance Rights		
	Granted	Vested	Lapsed
Nino Ficca	739,722	635,421	104,301
Chad Hymas	112,551	96,681	15,870
Adam Newman	231,163	198,569	32,594
Alistair Parker	139,450	119,788	19,662
Mario Tieppo	141,573	121,611	19,962

Directors' report – Remuneration report (audited)**7 Statutory Remuneration Disclosures (continued)***LTI rights allocation*

The following table shows the number and value of grants subject to current vesting and future performance testing. The performance periods for the grants made in 2016 and 2017 are still in progress and, as such vesting has not been assessed against the performance conditions at the date of this report.

KMP	Maximum total value of grant (\$) ^{1,2}	Performance rights granted	Maximum total value of grant (\$) ²	Performance rights granted	Maximum total value of grant (\$) ²	Performance rights granted
Grant Test / Vesting date	2015 31 Mar 2018		2016 31 Mar 2019		2017 31 Mar 2020	
Nino Ficca	739,722	739,722	706,437	692,585	1,075,617	888,940
Chad Hymas	112,551	112,551	107,487	105,379	155,137	128,212
Adam Newman	231,163	231,163	220,222	215,904	238,854	197,400
Alistair Parker	139,450	139,450	133,175	130,564	172,374	142,458
Mario Tieppo	141,573	141,573	135,203	132,552	146,642	121,192
Total	1,364,459	1,364,459	1,302,524	1,276,984	1,788,624	1,478,202

1. These grants have vested. In determining LTIs for the 1 April 2015 grant, the Board has not exercised any discretion in relation to the performance measures and outcomes payable under the LTI plan.
2. For performance rights granted on 1 April 2015, 1 April 2016 and 1 April 2017, the amounts represent the value of the performance rights on grant date. Refer to Note F.3 in the financial statements for further details.

Directors' report – Remuneration report (audited)**7 Statutory Remuneration Disclosures (continued)****Remuneration Paid to Non-Executive Directors**

The total remuneration paid to Non-Executive Directors for FY2018 was \$1,826,068, which is 81.2 per cent of the total available fee pool of \$2,250,000 which was approved by shareholders at the 2016 AGM.

The total remuneration is slightly higher than FY2017, as a result of the higher number of directors for a period to facilitate a smooth transition between Tina McMeckan and Nora Scheinkestel, particularly in relation to Chair of the Audit and Risk Management Committee.

Non-Executive Directors	FY	Short-term		Post-employment	Total ¹
		Cash salary and fees	Other short-term benefits	Superannuation ²	
Ralph Craven	2018	168,950	-	16,050	185,000
	2017	169,219	-	15,781	185,000
Sally Farrier	2018	195,343	-	18,558	213,901
	2017	182,586	-	16,967	199,553
Ho Tian Yee	2018	166,667	-	15,833	182,500
	2017	184,787	-	17,555	202,342
Peter Mason	2018	390,060	-	19,940	410,000
	2017	346,797	-	18,990	365,787
Tina McMeckan ³	2018	61,799	-	5,871	67,670
	2017	216,598	-	19,027	235,625
Robert Milliner	2018	184,931	-	17,569	202,500
	2017	173,849	-	15,574	189,423
Ng Kee Choe	2017	40,008	-	3,801	43,809
Nora Scheinkestel ⁴	2018	181,645	-	17,256	198,901
	2017	62,142	-	5,903	68,045
Sun Jianxing	2018	166,754	-	15,842	182,596
	2017	162,760	-	15,462	178,222
Tan Chee Meng ⁵	2018	168,950	-	16,050	185,000
	2017	141,219	-	13,416	154,635
Total NEDs	2018	1,685,099	-	142,969	1,828,068
	2017	1,679,965	-	142,476	1,822,441

1. The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.
2. Superannuation contributions made on behalf of Non-executive Directors to satisfy our obligations under applicable Superannuation Guarantee legislation. This does not include any salary sacrifice or employee contributions which are included under *Cash salary and fees*.
3. Ms McMeckan retired as a Non-executive Director effective 20 July 2017.
4. Dr Scheinkestel was appointed as a Non-executive Director effective 18 November 2016.
5. Mr Tan was appointed as a Non-executive Director effective 11 May 2016.

Directors' report – Remuneration report (audited)**7 Statutory Remuneration Disclosures (continued)****Shareholdings of KMP**

All KMP must comply with AusNet Services' Share Trading Policy, which includes a requirement that AusNet Services' shares can only be traded during specified trading windows.

The KMP of AusNet Services have disclosed relevant interests in shares as at 31 March 2018 as follows:

Name	Number of shares at 1 April 2017	Granted during the year as compensation	Acquisitions / (disposals)	Number of shares at 31 March 2018
Non-Executive Directors				
Ralph Craven	21,000	-	-	21,000
Sally Farrier ¹	67,700	-	54,100	121,800
Ho Tian Yee	-	-	-	-
Peter Mason	100,000	-	-	100,000
Tina McMeckan ²	90,000	-	-	90,000
Robert Milliner	-	-	-	-
Nora Scheinkestel	26,642	-	17,302	43,944
Sun Jianxing	-	-	-	-
Tan Chee Meng	-	-	50,000	50,000
Executive KMP				
Nino Ficca ³	1,987,183	276,000	-	2,263,183
Chad Hymas	192,739	51,600	12,394	256,733
Adam Newman ⁴	211,190	77,000	-	288,190
Alistair Parker	153,491	56,714	10,259	220,464
Mario Tieppo ⁵	76,400	48,100	-	124,500

1. Shares held by Bond St Custodians Limited who is the registered holder of shares as nominee for Ms Farrier's personal superannuation fund.
2. Shares held by McMeckan Superannuation Pty Ltd as Trustee for the McMeckan Family Super Fund. Ms McMeckan retired 20 July 2017. The number of shares disclosed at 31 March 2018 represents the number held at the date that Ms McMeckan retired.
3. 319,850 shares held by immediate family members of Mr Ficca and 1,943,333 shares held by Mr and Mrs Ficca as Trustees for the Ficca Investment Trust.
4. Shares held by Newman Family Trust for Mr Newman.
5. Shares held by immediate family members of Mr Tieppo.

Directors' report**Statutory disclosures****Meetings of Directors**

We are committed to achieving a high standard of corporate governance. A key role of the Board is to represent and serve the interests of shareholders by overseeing and appraising the strategies, policies and performance of the company. To effectively do this, the following standing committees were in place during FY2018:

- **Audit and Risk Management Committee (ARMC)** – oversees the adequacy and effectiveness of AusNet Services' audit program, risk management processes and internal control systems, including the monitoring of material business risks (financial and non-financial) and corporate compliance;
- **Nomination Committee** – reviews and makes recommendations to the Board in relation to the appointment of new Directors, review of Board and Board Committee membership and performance, Board and CEO succession planning and the appointment of senior managers; and
- **Remuneration Committee** – reviews and advises the Board on matters relating to the remuneration of Directors, and the remuneration and performance of senior executives.

The number of meetings of the Board of Directors and of each standing Board Committee of AusNet Services Ltd held during the year ended 31 March 2018, and the number of meetings attended by each Director, are set out in the following table:

	Board of AusNet Services Ltd		Audit and Risk Management Committee		Nomination Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B
Peter Mason (Chair)	6	6	4	-	2	2	3	-
Nino Ficca (MD)	6	6	5	-	-	2	5	-
Ralph Craven	6	6	6	6	2	2	-	-
Sally Farrier ¹	6	6	4	4	2	2	6	6
Ho Tian Yee	6	6	-	-	2	2	6	6
Tina McMeckan ²	2	2	2	2	1	1	2	2
Robert Milliner	6	6	6	6	2	2	6	6
Nora Scheinkestel	5	6	5	6	1	2	-	-
Sun Jianxing	6	6	-	-	2	2	4	6
Tan Chee Meng	4	6	4	6	1	2	-	-

1. Ms Farrier was appointed as a member of the Audit & Risk Management Committee on 20 July 2017.

2. Ms McMeckan retired as a Director effective 20 July 2017.

A = Number of meetings attended. Note that Directors may attend Committee meetings without being a member of that Committee.

B = Number of meetings held during the time the Director held office (in the case of Board meetings) or was a member of the relevant Committee during the year.

Directors' report

Statutory disclosures (continued)

Indemnification and insurance of officers and auditors

The constitution of AusNet Services Ltd provides for the company to indemnify each current and former Director, executive officer (as defined in the constitution), and such other current and former officers of the company or of a related body corporate as the Directors determine (each an 'Officer'), on a full indemnity basis and to the full extent permitted by law against all liabilities (as defined in the constitution) incurred by the Officer as an officer of the company or of a related body corporate.

The constitution also provides for AusNet Services Ltd, to the extent permitted by law, to purchase and maintain insurance, or pay or agree to pay a premium for insurance, for each Officer against any liability (as defined in the constitution) incurred by the Officer as an officer of the company or of a related body corporate.

AusNet Services Ltd may enter into a deed with any Officer to give effect to the rights conferred by the constitution as described above.

The company has executed protection deeds in favour of each of the Directors, the Company Secretary and certain general managers on substantially the same terms as provided in the constitution. The deeds also give a right of access to the books of the companies and to Board documents (to the Directors only).

During the financial year, we paid a premium to insure the Directors and Company Secretaries of the Australian-based subsidiaries and the Executive General Managers of AusNet Services. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance policy, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the policy.

No insurance premiums are paid by us in regard to insurance cover provided to the auditor of the Group, KPMG. The auditor is not indemnified and no insurance cover is provided to the auditor.

Non-audit services

We may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the relevant company are important.

Details of the amounts paid or payable to the auditor, KPMG, for audit and non-audit services provided during the year are set out in Note F.1 of the financial report.

In accordance with the advice provided by the Audit and Risk Management Committee, the Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act*. The Directors are satisfied for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act* is set out on page 45.

Environmental regulation and climate change

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

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007 (Cth)*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. We meet these thresholds and have lodged our NGER reporting with the Clean Energy Regulator for the period from 1 July 2016 to 30 June 2017.

Significant changes in the state of affairs

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

Directors' report

Statutory disclosures (continued)

Matters subsequent to the end of the financial year

Dividend

Since the end of the financial year, the Directors have approved a final dividend for FY2018 of \$167.0 million (4.62 cents per share) to be paid on 28 June 2018. The final dividend will be unfranked. The DRP will be suspended for the final FY2018 dividend as a result of the Singapore Stock Exchange delisting in progress.

Singapore Stock Exchange (SGX) delisting

On 2 May 2018 AusNet Services announced its intention to voluntarily delist from the SGX effective 16 July 2018. The Board took the decision to delist, having considered both the advantages and disadvantages of our shares being listed on the SGX, concluding that the delisting is in the best interests of AusNet Services as a whole. The delisting was identified as an initiative to reduce administrative costs, simplify our processes and drive efficiency.

Currently the SGX listing is approximately three per cent of the total AusNet Services share register and delisting is not expected to affect Singapore institutional investor appetite. Singapore Power (SP)'s shares are held on the ASX and therefore SP's shareholding is unaffected by this announcement.

No general meeting will be convened to obtain the approval of AusNet Services shareholders to the delisting as the Listing Rules of the ASX and the Listing Manual of the SGX do not require AusNet Services to hold such a general meeting. SGX shareholders will have the option to sell their shares under the Share Sale Facility by 16 July 2018; otherwise their shares will be transferred to the Australian register (and quoted on the ASX).

Rounding of amounts

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

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



Peter Mason
Chairman



Nino Ficca
Managing Director

Melbourne
13 May 2018



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of AusNet Services Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of AusNet Services Ltd for the financial year ended 31 March 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Paul J McDonald

Partner

Melbourne

13 May 2018

Consolidated income statement

For the year ended 31 March 2018

		2018	2017
	Notes	\$M	\$M
Revenue	B.1	1,909.8	1,881.5
Use of system and associated charges		(93.6)	(99.3)
Easement and land tax		(142.2)	(115.9)
Employee benefits expenses		(199.0)	(242.8)
External maintenance and contractors' services		(137.1)	(139.6)
Materials		(38.9)	(41.9)
Information technology and communication costs		(54.1)	(55.9)
Operating lease rental expenses		(12.8)	(13.7)
Administrative expenses		(32.4)	(31.9)
Service level payments		(5.5)	(19.1)
Disposal of property, plant and equipment		(15.0)	(6.1)
Other costs		(36.3)	(42.0)
Total expenses excluding depreciation, amortisation, interest and tax		(766.9)	(808.2)
Earnings before interest, tax, depreciation and amortisation		1,142.9	1,073.3
Depreciation and amortisation	C.1, C.2	(442.4)	(425.9)
Profit from operating activities		700.5	647.4
Finance income	D.4	15.9	18.2
Finance costs	D.4	(299.8)	(302.3)
Net finance costs		(283.9)	(284.1)
Profit before income tax		416.6	363.3
Income tax expense	B.4	(125.2)	(108.2)
Profit for the year		291.4	255.1
Basic and diluted earnings per share (cents per share)	B.2	8.08	7.15

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

Consolidated statement of comprehensive income

For the year ended 31 March 2018

		2018	2017
	Notes	\$M	\$M
Profit for the year		291.4	255.1
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	F.2	20.6	46.5
Income tax on movement in defined benefit fund	B.4	(6.1)	(14.0)
		14.5	32.5
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		(146.2)	82.5
Income tax on movement in hedge reserve	B.4	46.9	(19.4)
	D.3	(99.3)	63.1
Other comprehensive income for the year, net of tax		(84.8)	95.6
Total comprehensive income for the year		206.6	350.7

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

Consolidated statement of financial position

As at 31 March 2018

	Notes	2018 \$M	2017 \$M
ASSETS			
Current assets			
Cash and cash equivalents		658.2	328.8
Receivables	B.3	183.0	214.1
Desalination licence receivable	C.3	12.3	12.4
Inventories	B.3	42.3	43.3
Derivative financial instruments	D.3	0.9	5.7
Current tax receivable		-	25.9
Other assets	B.3	24.5	25.1
Total current assets		921.2	655.3
Non-current assets			
Inventories	B.3	18.9	17.4
Property, plant and equipment	C.1	10,291.8	10,000.0
Intangible assets	C.2	550.1	554.8
Desalination licence receivable	C.3	180.8	189.6
Derivative financial instruments	D.3	501.6	306.0
Other assets	B.3	52.9	33.4
Total non-current assets		11,596.1	11,101.2
Total assets		12,517.3	11,756.5
LIABILITIES			
Current liabilities			
Payables and other liabilities	B.3	280.4	271.3
Provisions	B.3	93.3	106.1
Borrowings	D.2	465.4	398.4
Derivative financial instruments	D.3	77.8	10.3
Current tax payable		3.6	-
Total current liabilities		920.5	786.1
Non-current liabilities			
Deferred revenue	B.3	87.1	73.7
Provisions	B.3	49.6	41.9
Borrowings	D.2	7,099.7	6,266.9
Derivative financial instruments	D.3	192.9	303.1
Deferred tax liabilities	B.4	611.5	586.4
Total non-current liabilities		8,040.8	7,272.0
Total liabilities		8,961.3	8,058.1
Net assets		3,556.0	3,698.4
EQUITY			
Contributed equity	D.5	5,162.5	5,153.2
Reserves		(1,560.3)	(1,464.5)
Retained profits		1,048.9	1,104.8
Other equity		(1,095.1)	(1,095.1)
Total equity		3,556.0	3,698.4

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

Consolidated statement of changes in equity

For the year ended 31 March 2018

	Notes	Contributed equity \$M	Restructure reserve (i) \$M	Hedge reserve (ii) \$M	Asset revaluation reserve (iii) \$M	Share based payment reserve (iv) \$M	Other equity component (v) \$M	Retained profits \$M	Total equity \$M
31 March 2018									
Balance as at 1 April 2017		5,153.2	(1,501.9)	(17.8)	51.4	3.8	(1,095.1)	1,104.8	3,698.4
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	291.4	291.4
Other comprehensive income		-	-	(99.3)	-	-	-	14.5	(84.8)
Total comprehensive income for the year		-	-	(99.3)	-	-	-	305.9	206.6
Transactions with owners, recorded directly in equity									
Dividends paid	D.6	-	-	-	-	-	-	(361.8)	(361.8)
Dividend Reinvestment Plan (net of transaction costs)	D.6	19.6	-	-	-	-	-	-	19.6
Share based payment reserve	F.3	-	-	-	-	3.5	-	-	3.5
Shares purchased as part of employee share plans	D.5	(10.3)	-	-	-	-	-	-	(10.3)
Total transactions with owners		9.3	-	-	-	3.5	-	(361.8)	(349.0)
Balance as at 31 March 2018		5,162.5	(1,501.9)	(117.1)	51.4	7.3	(1,095.1)	1,048.9	3,556.0
31 March 2017									
Balance as at 1 April 2016		5,057.3	(1,501.1)	(80.9)	51.4	1.2	(1,095.1)	1,125.0	3,557.8
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	255.1	255.1
Other comprehensive income		-	-	63.1	-	-	-	32.5	95.6
Total comprehensive income for the year		-	-	63.1	-	-	-	287.6	350.7
Transactions with owners, recorded directly in equity									
Dividends paid	D.6	-	-	-	-	-	-	(307.8)	(307.8)
Dividend Reinvestment Plan (net of transaction costs)	D.6	95.9	-	-	-	-	-	-	95.9
Share based payment reserve	F.3	-	(0.8)	-	-	2.6	-	-	1.8
Total transactions with owners		95.9	(0.8)	-	-	2.6	-	(307.8)	(210.1)
Balance as at 31 March 2017		5,153.2	(1,501.9)	(17.8)	51.4	3.8	(1,095.1)	1,104.8	3,698.4

Consolidated statement of changes in equity

For the year ended 31 March 2018

- (i) Under the corporate restructure, AusNet Services Ltd shares were issued to shareholders in return for their stapled securities. AusNet Services Ltd share capital was measured at fair value on the date of the transaction, being the market capitalisation of the AusNet Services Stapled Group on the date of implementation of 18 June 2015 (\$4,957.7 million). The difference between the contributed equity of AusNet Services Ltd and the pre restructure contributed equity of the Stapled Group at the date of the transaction was recognised as a restructure reserve.
- (ii) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset.
- (iii) This amount represents the fair value uplift to the assets of the AusNet Services Transmission Group on the date that the previous Stapled Group was formed. The fair value uplift was applied to easements which are considered to have an indefinite useful life. The amount was carried into the asset revaluation reserve of the Group following the corporate restructure on 18 June 2015.
- (iv) The share based payment reserve represents the tax-effected fair value of the performance rights granted under the 2015-2017 tranches of the long term incentive plan. This takes into account estimated vesting and service conditions as at 31 March 2018.
- (v) The other equity component results from the application of reverse acquisition accounting and represents the difference between the net assets of AusNet Services (Transmission) Ltd and AusNet Finance Pty Ltd and the purchase price paid by the legal acquirer, AusNet Services (Transmission) Ltd on 20 October 2005.

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

Consolidated statement of cash flows

For the year ended 31 March 2018

	Notes	2018 \$M	2017 \$M
Cash flows from operating activities			
Profit for the year		291.4	255.1
Add back interest, tax, depreciation		851.5	818.2
Other non-cash items		(4.8)	4.4
Working capital movement		54.5	(0.2)
Income tax paid		(29.2)	(49.4)
Net interest paid		(277.0)	(285.3)
Net cash inflow from operating activities		886.4	742.8
Cash flows from investing activities			
Payments for property, plant and equipment (i)		(732.7)	(888.2)
Proceeds from sale of property, plant and equipment		7.1	4.3
Receipts from desalination licence receivable	C.3	8.8	8.8
Net cash outflow from investing activities		(716.8)	(875.1)
Cash flows from financing activities			
Payments for employee equity plan shares	D.5	(10.3)	-
Dividends paid (ii)	D.6	(342.2)	(211.9)
Proceeds from borrowings	D.2	900.9	987.8
Repayment of borrowings	D.2	(388.6)	(756.2)
Net cash inflow from financing activities		159.8	19.7
Net increase/(decrease) in cash held		329.4	(112.6)
Cash and cash equivalents at the beginning of the year		328.8	441.4
Cash and cash equivalents at the end of the year		658.2	328.8

- (i) Net finance costs include a credit of \$16.9 million (2017: \$21.8 million) for capitalised finance charges which is included in payments for property, plant and equipment.
- (ii) Amounts shown represent dividends paid of \$361.8 million (2017: \$307.8 million) offset by proceeds from the Dividend Reinvestment Plan net of transaction costs of \$19.6 million (2017: \$95.9 million).

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

Notes to the consolidated financial statements31 March 2018

Contents

Section A	Overview	53
Section B	Operating our business	
Note B.1	Segment results	54
Note B.2	Earnings per share	57
Note B.3	Working capital	57
Note B.4	Taxation	61
Section C	Investing in our business	
Note C.1	Property, plant and equipment	64
Note C.2	Intangible assets	67
Note C.3	Desalination licence receivable	68
Note C.4	Impairment of non-current assets	68
Note C.5	Commitments	70
Section D	Financing our business	
Note D.1	Capital management	71
Note D.2	Borrowings	71
Note D.3	Financial risk management	73
Note D.4	Net finance costs	86
Note D.5	Equity	87
Note D.6	Dividends	88
Section E	Group structure	
Note E.1	Subsidiaries	89
Note E.2	Parent entity information	90
Note E.3	Related party transactions	91
Section F	Other disclosures	
Note F.1	Remuneration of auditors	93
Note F.2	Defined benefit obligations	93
Note F.3	Share-based payments	96
Note F.4	Contingent liabilities and contingent assets	97
Note F.5	New accounting standards not yet adopted	98
Note F.6	Events occurring after the balance sheet date	99

Notes to the consolidated financial statements

31 March 2018

Section A Overview

We have included information in this report that we deem to be material and relevant to the understanding of the financial statements. Disclosure may be considered material and relevant if the dollar amount is significant due to size or nature, or the information is important to understand:

- our current year results;
- the impact of significant changes in our business; or
- aspects of our operations that are important to future performance.

(a) Basis of preparation

The consolidated general purpose financial report, prepared by a for-profit entity and presented in Australian dollars, represents the consolidated financial statements of AusNet Services Ltd and its subsidiaries. The financial statements were approved by the Board of Directors on 13 May 2018.

The financial report has been prepared:

- in accordance with Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act 2001* (Cth), as well as International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board;
- on a going concern basis, which contemplates the continuity of normal trading operations. The Group is, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2018, the Group has available a total of \$545.5 million of undrawn but committed bank debt facilities and \$658.2 million of cash;
- under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value; and
- with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Instrument 2016/191 issued by the Australian Securities and Investments Commission.

The accounting policies applied by us in this financial report are the same as those applied by us in our consolidated financial report as at and for the year ended 31 March 2017. There have been no new accounting standards relevant to the Group adopted during the period.

(b) Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed throughout the financial statements located within the following notes:

- B.3 - Working capital
- B.4 - Taxation
- C.1 - Property, plant and equipment
- C.4 - Impairment of non-current assets
- D.3 - Financial risk management
- F.2 - Defined benefit obligations

Notes to the consolidated financial statements

31 March 2018

Section B Operating our business

This section highlights the performance of the Group for the year, including results by operating segment, details of income tax expense and related balances and earnings per share. In addition, this section provides information on the working capital used to generate the Group's operating activities and the liabilities incurred as a result.

Note B.1 Segment results

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

(a) Description of reportable segments

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

(i) Electricity distribution

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

(ii) Gas distribution

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

(iii) Electricity transmission

We own and manage the vast majority of the electricity transmission network in Victoria. Our electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power generators to electricity distributors around Victoria forming the backbone of the Victorian electricity network. We charge the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network. The electricity transmission segment does not purchase or sell electricity.

(iv) Commercial energy services

The commercial energy services business consists of contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. Contracted infrastructure asset services own and operate a portfolio of assets that fall outside the regulated asset base (the largest of which is the Wonthaggi desalination plant transmission connection). The investments are made through directly negotiated agreements, pursuant to which AusNet Services typically receives revenue over the contract period in exchange for the infrastructure and operational services provided.

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

Notes to the consolidated financial statements

31 March 2018

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

2018	Electricity distribution \$M	Gas distribution \$M	Electricity transmission \$M	Commercial energy services \$M	Inter- segment eliminations \$M	Consolidated \$M
Regulated revenue	833.0	213.0	542.4	-	(9.5)	1,578.9
Excluded transmission revenue	-	-	53.8	-	(0.1)	53.7
Unregulated infrastructure revenue	-	-	-	49.3	-	49.3
Customer contributions	48.1	11.0	-	-	-	59.1
Service revenue	-	-	-	135.6	(3.6)	132.0
Other revenue	10.3	0.6	5.7	21.3	(1.1)	36.8
Total segment revenue	891.4	224.6	601.9	206.2	(14.3)	1,909.8
Segment operating expense	(351.2)	(62.3)	(222.1)	(145.6)	14.3	(766.9)
Segment result - EBITDA (i)	540.2	162.3	379.8	60.6	-	1,142.9
Depreciation and amortisation	(273.9)	(48.6)	(99.4)	(20.5)	-	(442.4)
Net finance costs						(283.9)
Income tax expense						(125.2)
Profit for the year						291.4
Capital expenditure	439.3	96.9	163.8	50.2		750.2
2017						
Regulated revenue	825.9	215.6	537.0	-	(11.0)	1,567.5
Excluded transmission revenue	-	-	47.5	-	-	47.5
Unregulated infrastructure revenue	-	-	-	45.5	-	45.5
Customer contributions	28.8	6.0	-	-	-	34.8
Service revenue	-	-	-	154.4	(4.2)	150.2
Other revenue	13.5	2.7	1.5	21.5	(3.2)	36.0
Total segment revenue	868.2	224.3	586.0	221.4	(18.4)	1,881.5
Segment operating expense	(400.5)	(59.9)	(204.6)	(161.6)	18.4	(808.2)
Segment result - EBITDA (i)	467.7	164.4	381.4	59.8	-	1,073.3
Depreciation and amortisation	(251.9)	(48.7)	(106.9)	(18.4)	-	(425.9)
Net finance costs						(284.1)
Income tax expense						(108.2)
Profit for the year						255.1
Capital expenditure	427.0	87.7	192.2	132.7		839.6

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

Notes to the consolidated financial statements

31 March 2018

Note B.1 Segment results (continued)

(c) Notes to and forming part of segment information

(i) *Regulated revenue*

Regulated revenue includes revenue earned from the distribution of electricity and gas and transmission of electricity in accordance with the relevant regulatory determination, as well as revenue earned from alternative control services (distribution). Revenue is measured at the fair value of the consideration received net of the amount of Goods and Services Tax (GST) payable to the taxation authority. Regulated revenue is recognised as the services are rendered.

(ii) *Excluded transmission revenue*

Excluded transmission revenue includes revenue from commissioned transmission regulated customer initiated capital projects that will be rolled into the Regulatory Asset Base (RAB) at the next major regulatory reset and will be subject to the revenue cap (Prescribed services). It also includes the revenue from transmission customer initiated projects that will be excluded permanently from the RAB (Negotiated services).

(iii) *Unregulated infrastructure revenue*

Unregulated infrastructure revenues relate to contestable electricity transmission projects whereby we typically build, own and operate assets and earn contracted annual revenues from customers connecting to the assets and/or from AEMO. In addition, we earn revenues from the operation and maintenance services provided in connection with the desalination electricity infrastructure assets. These revenues are recognised over the contract period as the services are rendered.

(iv) *Customer contributions*

Non-refundable contributions received from customers towards the cost of extending or modifying our networks are generally recognised as revenue and an asset respectively once control is gained of the contribution or asset and the customer is connected to the network. For unregulated customer projects, contributions received are recognised as revenue on a straight-line basis over the term of the connection agreement.

Customer contributions of cash are measured with reference to the cash contribution received and customer contributions of assets are measured at the fair value of the assets contributed at the date we gain control of the asset. Fair value is determined with reference to the depreciated replacement cost of the asset, unless another measure of fair value is considered more appropriate.

(v) *Service revenue*

Service revenue is recognised as the services are rendered. This includes revenue earned from specialist utility related solutions, in particular metering, monitoring and asset inspection services.

(vi) *Other revenue*

Other revenues primarily include material sales, rental income and Government grants. Government grants are recognised initially as deferred revenue at fair value when there is reasonable assurance that they will be received and we will comply with the conditions associated with the grant, and are then recognised in the income statement as other income on a systematic basis over the useful life of the assets associated with the grant.

(vii) *Allocation to segments*

Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. The Cost Allocation Methodology as approved by the Australian Energy Regulator (AER) is used as the basis for allocating expenses to the relevant segment.

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

Notes to the consolidated financial statements

31 March 2018

Note B.2 Earnings per share**(a) Basic earnings per share**

	2018	2017
Profit attributable to ordinary shareholders of AusNet Services (\$M)	291.4	255.1
<i>divided by</i> Weighted average number of shares (million)	3,605	3,570
<i>equals</i> Earnings per share (cents)	8.08	7.15

(b) Diluted earnings per share

There were no factors causing a dilution of either the profit or loss attributable to ordinary shareholders or the weighted average number of ordinary shares outstanding. We have the option to issue equity to meet vested share rights to employees, however are currently purchasing these on market. Accordingly, basic and diluted earnings per share are the same.

Note B.3 Working capital

Working capital are assets and liabilities that are utilised as part of the day-to-day operations of the Group and are not used for investing purposes.

Key estimates and judgements - Accrued revenue

Revenue accrual estimates are made to account for the unbilled period between the end user's last billing date and the end of the accounting period. The accrual relies on detailed analysis of customers' historical consumption patterns, and takes into account base usage and sensitivity to prevailing weather conditions. The results of this analysis are applied for the number of days and weather conditions over the unbilled period.

The accrual for solar rebates paid to retailers is calculated by applying the average rebate per day (based on the amount billed) to the number of unbilled days at month end.

Notes to the consolidated financial statements

31 March 2018

Note B.3 Working capital (continued)

	Assets		Liabilities	
	2018	2017	2018	2017
	\$M	\$M	\$M	\$M
Accounts receivable/payable	43.2	51.3	(13.5)	(27.0)
Mickleham bushfire settlement	-	5.0	-	(5.0)
Accrued revenue/accrued expenses	134.8	153.6	(144.1)	(127.8)
Related party receivables/payables	3.3	3.3	(27.5)	(21.5)
Deferred revenue	-	-	(46.0)	(38.1)
Other receivables/payables	0.2	0.3	(10.5)	(13.0)
Interest receivables/payables	1.5	0.6	(38.8)	(38.9)
Total current receivables/payables and other liabilities	183.0	214.1	(280.4)	(271.3)
Current other assets	24.5	25.1	-	-
Non-current other assets (i)	52.9	33.4	-	-
Current inventory	42.3	43.3	-	-
Non-current inventory	18.9	17.4	-	-
Current provisions	-	-	(93.3)	(106.1)
Non-current provisions	-	-	(49.6)	(41.9)
Non-current deferred revenue	-	-	(87.1)	(73.7)
Defined benefit reserve and share based payment reserve	-	-	(41.2)	(17.8)
Working capital	321.6	333.3	(551.6)	(510.8)
<i>Comprising:</i>				
Operating activities	320.1	331.9	(415.8)	(373.1)
Investing and financing activities (ii)	1.5	1.4	(135.8)	(137.7)

(i) Includes \$51.9 million (2017: \$32.2 million) defined benefit surplus, refer to note F.2 for further details.

(ii) Includes accrued interest and the portions of accounts payable and accrued expense that relate to capital expenditure.

Notes to the consolidated financial statements

31 March 2018

Note B.3 Working capital (continued)**(a) Accounts receivable**

Current and non-current receivables are initially recognised at the fair value of the amounts to be received and are subsequently measured at amortised cost, less any allowance for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. An allowance for impairment is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables.

Accounts receivable are non-interest bearing and the average credit period on sales of transmission, distribution and specialist utility services is ten business days.

The ageing of accounts receivable as at reporting date was:

	Gross	Allowance	Gross	Allowance
	2018	2018	2017	2017
	\$M	\$M	\$M	\$M
Not past due	28.3	-	40.5	-
0 - 30 days	7.4	-	3.8	-
31 - 60 days	1.9	-	1.4	-
61 - 90 days	0.9	-	0.9	-
Greater than 90 days	5.5	(0.8)	4.8	(0.1)
Total	44.0	(0.8)	51.4	(0.1)

Of those debts that are past due, the majority are receivable from high credit quality counterparties. Receivables relating to regulated revenue streams (which account for approximately 86 per cent of revenues) are owed by retailers and distributors in the industry. There are strict regulatory requirements regarding who can obtain a retail or distribution licence and the Essential Services Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. The Australian Energy Market Operator (AEMO) also has high prudential requirements for retailers who participate in the market. Retailers must provide guarantees as requested by AEMO to minimise the risk of exposure by other participants to any defaults.

(b) Trade and other payables

These amounts represent liabilities for goods and services provided to us prior to the end of financial year which are unpaid. Trade and other payables are stated at cost, are unsecured and are usually payable within 30 days of end of month.

Notes to the consolidated financial statements

31 March 2018

Note B.3 Working capital (continued)**(c) Provisions**

	2018	2017
	\$M	\$M
Current provisions		
Employee benefits (i)	83.8	87.2
Sundry provisions (ii)	5.9	7.4
Redundancy provision	3.0	6.6
Environmental provision (iii)	0.6	4.9
Total current provisions	93.3	106.1
Non-current provisions		
Employee benefits (i)	8.7	8.8
Environmental provision (iii)	32.1	27.8
Make good provision	8.8	5.3
Total non-current provisions	49.6	41.9
Total provisions	142.9	148.0

- (i) Employee benefits provisions represent provisions for annual and long service leave for our employees as well as provisions for employee bonuses. Liabilities for annual leave and long service leave are measured at the present value of expected future payments for services provided by employees up to the reporting date, including on costs. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on corporate bonds with a term to maturity and currency that match, as closely as possible, the estimated future cash outflows.
- (ii) Sundry provisions include uninsured losses, make good provisions and provisions for cross boundary charges.
- (iii) The environmental provision represents an estimate of the costs of rehabilitating sites, including the estimated costs to remediate soil and water contamination on gas sites which were previously used as coal gas production facilities. The provision is based on the estimated costs and timing of remediation/refurbishment, taking into account current legal requirements, the estimated extent of the contamination, the nature of the site and surrounding areas, and the technologies and methods available.

Notes to the consolidated financial statements

31 March 2018

Note B.4 Taxation**Key estimates and judgements - Income taxes**

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in relation to the application of tax legislation as it applies to AusNet Services Ltd. Judgement is required in determining the timing of deductibility of expenditure, which impacts the amount of income tax payable and whether deferred tax balances are to be recognised in the statement of financial position. Changes in tax legislation or the interpretation of tax laws by tax authorities may affect the amount of provision for income taxes and deferred tax balances recognised.

(a) Effective tax rate reconciliation

	2018	2017
	\$M	\$M
Profit before income tax	416.6	363.3
Tax at the Australian tax rate of 30.0% (2017: 30.0%)	125.0	109.0
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:		
Prior year under/(over) provisions	0.6	(0.4)
Sundry items	(0.4)	(0.4)
Income tax expense	125.2	108.2
Consists of:		
Current tax	53.3	20.0
Prior year (over)/under provision – current tax	(5.2)	0.1
Deferred tax	71.3	88.6
Prior year under/(over) provision – deferred tax	5.8	(0.5)
Income tax expense	125.2	108.2

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill. Both our current income tax and deferred tax are calculated using tax rates that have been enacted or substantively enacted at reporting date.

(b) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Notes to the consolidated financial statements

31 March 2018

Note B.4 Taxation (continued)**(c) Deferred tax**

Deferred tax assets / (Deferred tax liabilities)						
	1 April 2017	Prior-year tax returns (i)	Prior year (under)/overs	(Charged)/ credited to income statement	Charged/ (credited) directly in equity	31 March 2018
	\$M	\$M	\$M	\$M	\$M	\$M
2018						
Employee benefits	28.9	-	-	(1.1)	-	27.8
Other accruals and provisions	51.6	-	(0.1)	5.5	0.5	57.5
Derivative financial instruments and fair value adjustments on borrowings	(39.0)	-	-	3.5	46.9	11.4
Defined benefit funds	(9.8)	-	-	0.3	(6.1)	(15.6)
Intangibles	(26.6)	-	-	(0.1)	-	(26.7)
Desalination licence receivable	(18.9)	-	-	(4.4)	-	(23.3)
Property, plant and equipment	(572.6)	10.7	(5.7)	(75.0)	-	(642.6)
Net deferred tax liabilities	(586.4)	10.7	(5.8)	(71.3)	41.3	(611.5)
2017						
Employee benefits	31.0	-	(0.2)	(1.9)	-	28.9
Other accruals and provisions	44.2	-	3.0	3.5	0.9	51.6
Derivative financial instruments and fair value adjustments on borrowings	(25.2)	-	-	5.6	(19.4)	(39.0)
Tax losses	11.3	-	-	(11.3)	-	-
Defined benefit funds	1.7	-	1.6	0.9	(14.0)	(9.8)
Intangibles	(26.7)	-	-	0.1	-	(26.6)
Desalination licence receivable	(14.5)	-	-	(4.4)	-	(18.9)
Property, plant and equipment	(487.6)	-	(3.9)	(81.1)	-	(572.6)
Net deferred tax liabilities	(465.8)	-	0.5	(88.6)	(32.5)	(586.4)

- (i) During FY2016 AusNet Services Ltd formed a single tax consolidated group that replaced the previous two tax consolidated groups of AusNet Services (Distribution) Ltd and AusNet Services (Transmission) Ltd. As a result of this change the tax bases of the assets of the AusNet Services (Distribution) Ltd tax consolidated group were reset with a valuation uplift.

Deferred tax liabilities were reduced by the estimated tax effect of the valuation uplift. The Group is amending the FY2016 and FY2017 tax returns to reflect the actual tax depreciation on individual assets following an allocation exercise undertaken in FY2018.

Notes to the consolidated financial statements

31 March 2018

Note B.4 Taxation (continued)

(c) Deferred tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect at the reporting date to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and we intend to settle our tax assets and liabilities on a net basis.

(i) Tax consolidation

AusNet Services Ltd is the head entity in a tax consolidated group comprising itself and its wholly owned subsidiaries.

The current and deferred tax amounts for the tax consolidated group are allocated among entities in the group using the stand alone taxpayer method.

Members of the tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangement requires payments to/(from) the head entity equal to the current tax liability/(asset) calculated under the stand alone taxpayer method and any deferred tax asset relating to tax losses assumed by the head entity. Members of the tax consolidated group have also entered into a valid tax sharing agreement under the tax consolidation legislation which set out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated group.

The head entity recognises deferred tax assets arising from unused tax losses of its tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the assets can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised in conjunction with any tax funding arrangement amounts.

Notes to the consolidated financial statements

31 March 2018

Section C Investing in our business

This section highlights the investments made by us into our non-current asset base, including the core network assets, and provides a summary of our impairment assessment.

Note C.1 Property, plant and equipment

Key estimates and judgements - Useful life assessments

Management judgement is applied to estimate service lives and residual values of our assets and these are reviewed annually. If service lives or residual values need to be modified, the depreciation expense changes as from the date of reassessment until the end of the revised useful life (for both the current and future years). This assessment includes consideration of the regulatory environment and technological developments.

Items of property, plant and equipment are stated at historical cost less depreciation. The cost of contributed assets is their fair value at the date we gain control of the asset.

Historical cost includes all expenditure that is directly attributable to the acquisition of the asset, including an appropriate allocation of overheads and capitalised borrowing costs. Cost may also include transfers from the hedge reserve of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably.

Items of plant and equipment under construction are recognised as capital work in progress. Once the asset construction is complete and the asset is capable of operating in the manner intended by management, the item of plant and equipment is transferred from capital work in progress to the relevant asset class and depreciation of the asset commences.

Maintenance and repair costs and minor renewals are charged as expenses as incurred, except where they relate to the replacement of an asset, in which case the costs are capitalised and depreciated, and the replaced item is derecognised.

Depreciation is recognised on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually, and where changes are made, their effects are accounted for on a prospective basis.

Notes to the consolidated financial statements

31 March 2018

Note C.1 Property, plant and equipment (continued)

	Freehold land \$M	Buildings \$M	Easements \$M	Transmission network \$M	Electricity distribution network \$M	Gas distribution network \$M	Other plant and equipment \$M	Capital work in progress \$M	Total \$M
Useful life (years)	Indefinite	40-99	Indefinite	15-70	5-70	15-80	3-12	n/a	
2018									
Carrying amount as at 1 April 2017	253.2	410.6	1,219.2	2,055.3	3,901.3	1,515.3	248.1	397.0	10,000.0
Additions	-	-	-	-	-	-	-	702.6	702.6
Transfers	0.3	26.9	4.2	135.1	292.5	88.3	23.1	(570.4)	-
Disposals	-	(0.8)	-	(6.4)	(10.3)	(2.6)	(0.6)	-	(20.7)
Depreciation expense	-	(13.7)	-	(79.7)	(176.4)	(43.7)	(76.6)	-	(390.1)
Carrying amount as at 31 March 2018	253.5	423.0	1,223.4	2,104.3	4,007.1	1,557.3	194.0	529.2	10,291.8
Cost	253.5	521.5	1,223.4	2,899.3	5,414.0	2,012.9	677.7	529.2	13,531.5
Accumulated depreciation	-	(98.5)	-	(795.0)	(1,406.9)	(455.6)	(483.7)	-	(3,239.7)
Carrying amount as at 31 March 2018	253.5	423.0	1,223.4	2,104.3	4,007.1	1,557.3	194.0	529.2	10,291.8

Notes to the consolidated financial statements

31 March 2018

Note C.1 Property, plant and equipment (continued)

	Freehold land	Buildings	Easements	Transmission network	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital work in progress	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Useful life (years)	Indefinite	40-99	Indefinite	15-70	5-70	15-80	3-12	n/a	
2017									
Carrying amount as at 1 April 2016	251.1	363.0	1,219.2	1,867.9	3,698.0	1,474.3	206.1	517.5	9,597.1
Additions	-	-	-	-	-	-	-	789.6	789.6
Transfers	2.1	66.8	-	271.4	371.1	83.2	115.5	(910.1)	-
Disposals	-	(0.6)	-	(1.8)	(5.2)	(2.2)	(0.8)	-	(10.6)
Depreciation expense	-	(18.6)	-	(82.2)	(162.6)	(40.0)	(72.7)	-	(376.1)
Carrying amount as at 31 March 2017	253.2	410.6	1,219.2	2,055.3	3,901.3	1,515.3	248.1	397.0	10,000.0
Cost	253.2	499.8	1,219.2	2,780.5	5,149.3	1,930.5	665.6	397.0	12,895.1
Accumulated depreciation	-	(89.2)	-	(725.2)	(1,248.0)	(415.2)	(417.5)	-	(2,895.1)
Carrying amount as at 31 March 2017	253.2	410.6	1,219.2	2,055.3	3,901.3	1,515.3	248.1	397.0	10,000.0

Notes to the consolidated financial statements

31 March 2018

Note C.2 Intangible assets

	Distribution licences (i)	Goodwill (ii)	Software (iii)	Other intangible assets	Total
	\$M	\$M	\$M	\$M	\$M
Useful life (years)	Indefinite	Indefinite	3-10	3-10	
2018					
Carrying amount as at 1 April 2017	354.5	35.8	162.6	1.9	554.8
Additions	-	-	47.6	-	47.6
Transfers	-	-	0.7	(0.7)	-
Amortisation expense	-	-	(51.8)	(0.5)	(52.3)
Carrying amount as at 31 March 2018	354.5	35.8	159.1	0.7	550.1
Cost	354.5	35.8	545.8	5.5	941.6
Accumulated amortisation	-	-	(386.7)	(4.8)	(391.5)
Carrying amount as at 31 March 2018	354.5	35.8	159.1	0.7	550.1
2017					
Carrying amount as at 1 April 2016	354.5	35.8	168.4	2.5	561.2
Additions	-	-	43.4	-	43.4
Amortisation expense	-	-	(49.2)	(0.6)	(49.8)
Carrying amount as at 31 March 2017	354.5	35.8	162.6	1.9	554.8
Cost	354.5	35.8	508.3	7.4	906.0
Accumulated amortisation	-	-	(345.7)	(5.5)	(351.2)
Carrying amount as at 31 March 2017	354.5	35.8	162.6	1.9	554.8

(i) Distribution licences

The distribution licences held entitle us to distribute electricity and gas within our licensed region. Distribution licences are stated at cost and are considered to be indefinite life intangible assets, which are not amortised. The distribution licences are tested for impairment annually and are carried at cost less any accumulated impairment losses.

The distribution licences are considered to have an indefinite life for the following reasons:

- the licences have been issued in perpetuity provided we comply with certain licence requirements;
- we monitor our performance against those licence requirements and ensure that they are met; and
- we intend to, and are able to continue to, maintain the networks for the foreseeable future.

Notes to the consolidated financial statements

31 March 2018

Note C.2 Intangible assets (continued)

(ii) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, our interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of our previously held equity interest in the acquiree (if any), the excess is recognised immediately in the income statement as a gain.

Goodwill is not amortised but is reviewed for impairment at least annually.

(iii) Software

Computer software, developed internally or acquired externally, is initially measured at cost and includes development expenditure. Subsequently, these assets are carried at cost less accumulated amortisation and impairment losses. Software assets are amortised on a straight-line over their estimated useful lives.

Note C.3 Desalination licence receivable

	2018 \$M	2017 \$M
Desalination licence receivable		
Current receivable	12.3	12.4
Non-current receivable	180.8	189.6
Total desalination licence receivable	193.1	202.0

In December 2012 we entered into a 27-year licence agreement with the Victorian State Government for the right to operate and maintain the 87-kilometre high voltage underground transmission line supplying electricity to the Victorian desalination plant in Wonthaggi. At the same time, we entered into a 27-year agreement with the desalination plant operator to operate and maintain the transmission line in return for a monthly revenue payment.

The upfront payment of \$235 million plus transaction costs of \$1.2 million for the licence has been classified as a receivable. This receivable is interest bearing and \$8.8 million (2017: \$8.8 million) of the total cash flows received from the operator during the year has been allocated against this receivable balance. The monthly revenue payment received from the operator is fixed, with an annual adjustment for inflation. Any amounts not received from the operator, but which are past due, can be recovered from the Victorian State Government.

At the end of the agreements we are required to hand back the transmission line and all associated assets. In the event of early termination of the agreements, the unamortised portion of the upfront licence payment is refunded, along with the reimbursement of necessary costs incurred in order to effect the termination.

Note C.4 Impairment of non-current assets

At each reporting date we review the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. An impairment loss occurs when an asset's carrying amount exceeds its recoverable amount. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, we estimate the recoverable amount of the cash generating unit (CGU) to which the asset belongs. A CGU is the smallest group of assets that generate largely independent cash inflows.

Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually regardless of whether there is an indication that the asset or related CGU may be impaired.

Notes to the consolidated financial statements

31 March 2018

Note C.4 Impairment of non-current assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, the estimated future post-tax cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss is recognised in the income statement immediately.

Key estimates and judgements - Determination of CGUs and estimated recoverable amount of CGUs

We have applied significant judgement in determining our CGUs. In particular, we have determined that the electricity metering assets form part of the electricity distribution CGU as the metering assets are required, together with the rest of the electricity distribution network, in order to provide a network service to customers. As a result, the metering assets are tested for impairment together with the electricity distribution regulated network assets and cash flows.

During the year, there was a restructure of the Commercial Energy Services (CES) business, which resulted in a change to the unregulated CGUs. As a result, a portion of the goodwill from the Geomatic Technologies CGU was reallocated to the Electricity distribution regulated CGU.

Key estimates and judgements have also been applied in the measurement of recoverable amount, the details of which are provided below.

The following CGUs have significant amounts of intangible assets with an indefinite life:

	Cash flow projection period (i)		Post-tax discount rate (ii)		Carrying value	
	2018 years	2017 years	2018 %	2017 %	2018 \$M	2017 \$M
Regulated CGUs						
Electricity distribution (distribution licence)	20	20	5.2	5.0	117.2	117.2
Electricity distribution (goodwill)	20	-	5.2	-	19.0	-
Gas distribution (distribution licence)	20	20	5.2	5.0	237.3	237.3
Unregulated CGUs						
Asset Solutions business (goodwill)	-	5	-	10.2	-	11.8
Geomatic Technologies (goodwill)	-	5	-	7.4	-	23.7
Commercial Energy Services – field services (goodwill)	5	-	10.3	-	16.5	-

Recoverable amount is the higher of fair value less costs to sell and value in use.

- (i) Regulated cash flow forecasts are based on allowable returns on electricity and gas distribution assets as set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively, together with other information included in our five year forecast. Cash flows after that period are based on an extrapolation of the forecast, taking into account inflation and expected customer connection growth rates. It is considered appropriate to use cash flows after our five year forecast period considering the long term nature of the Group's activities.
- (ii) The discount rate represents the post-tax discount rate applied to the cash flow projections. The discount rate reflects the market determined risk adjusted discount rate that is adjusted for specific risks relating to the CGU.

Appropriate terminal values were calculated using a range of both RAB multiples and market earnings before interest, tax, depreciation and amortisation multiples. Fair value less costs to sell is measured using inputs that are not based on significant observable market data. Therefore, they are considered to be level three within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

Notes to the consolidated financial statements

31 March 2018

Note C.5 Commitments**(a) Capital commitments**

Capital expenditure contracted for at the reporting date but not recognised as a liability is as follows:

	2018	2017
	\$M	\$M
Property, plant and equipment	340.5	306.8

(b) Lease commitments

Our leases relate to premises, vehicles, network land and access sites under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. We do not have any finance lease arrangements.

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities are as follows:

	2018	2017
	\$M	\$M
Payable:		
Within one year	14.0	18.5
Later than one year, but no later than five years	31.1	38.5
Later than five years	47.3	9.4
	92.4	66.4
Representing:		
Non-cancellable operating leases	92.4	66.4

Notes to the consolidated financial statements

31 March 2018

Section D Financing our business

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

Note D.1 Capital management

Our capital structure consists of debt and equity. We determine the appropriate capital structure in order to finance the current and future activities of the Group. We review our capital structure and dividend policy regularly and do so in the context of our ability to continue as a going concern, to invest in opportunities that grow the business and to enhance shareholder value.

Our policy is to target an 'A' range credit rating to ensure low cost of capital in order to generate desired shareholder returns.

An important credit metric which assists management to monitor our capital structure is the net debt to Regulated and Contracted Asset Base (R&CAB) ratio, determined as indebtedness as a percentage of the R&CAB. Indebtedness is debt at face value (net of cash) excluding any derivative financial instruments. The R&CAB consists of the following items:

- Regulated Asset Base (RAB), which is subject to some estimation as the AER ultimately determines the RAB of each network; and
- The value of contracted network assets whose revenues and returns are set through a negotiated or competitive process. This includes the value of network assets that will form part of the RAB at the next regulatory period, as well as the carrying value of the desalination licence receivable.

The movement of this metric over time demonstrates how the business is funding its capital expenditure in terms of debt versus income generating assets. We target a net debt to R&CAB ratio of less than 75 per cent.

In addition, there are other important credit metrics that we regularly monitor. These include funds from operations (FFO) to debt and Interest cover ratio.

The net debt to R&CAB ratio as at reporting date was as follows:

	2018	2017
	%	%
Net debt to R&CAB	66.7	67.9

This ratio does not include equity credits in relation to \$706 million of hybrid securities.

Note D.2 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, except as detailed below. Any difference between the proceeds (net of transaction costs) and redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings which are part of a fair value hedge relationship are recognised at amortised cost, adjusted for the gain or loss attributable to the hedged risk. The gain or loss attributable to the hedged risk is recorded in the income statement together with any changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges.

Borrowings are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date or have the sole discretion to refinance or roll over the liability for at least 12 months after the reporting date under an existing loan facility.

Notes to the consolidated financial statements

31 March 2018

Note D.2 Borrowings (continued)

	Maturity date	Carrying Value		Face Value (i)	
		2018	2017	2018	2017
		\$M	\$M	\$M	\$M
Current borrowings					
Pound sterling (GBP) senior notes	Jun 2018	461.4	-	537.5	-
Bank debt facilities	Oct 2018	4.0	93.0	4.5	93.0
Domestic medium term notes		-	305.4	-	300.0
Total current borrowings		465.4	398.4	542.0	393.0
Non-current borrowings					
Pound sterling (GBP) senior notes		-	438.4	-	537.5
Swiss franc (CHF) senior notes	2019	378.4	368.4	283.2	283.2
Floating rate notes	2020	99.9	99.8	100.0	100.0
Domestic medium term notes	2020-2028	2,063.8	1,512.0	2,012.4	1,454.7
Euro (EUR) senior notes	2020-2030	2,608.6	2,020.3	2,329.8	2,078.3
Hong Kong dollar (HKD) senior notes	2020-2033	785.0	702.0	741.0	641.7
Japanese yen (JPY) senior notes	2024	63.4	62.3	62.6	62.6
US dollar (USD) senior notes	2026	103.3	103.3	107.0	107.0
Norwegian kroner (NOK) senior notes	2027-2029	333.8	298.4	319.4	319.4
US dollar (USD) hybrid securities (ii)	2076	464.7	473.8	505.7	505.7
Singapore dollar (SGD) hybrid securities (ii)	2076	198.8	188.2	199.6	199.6
Total non-current borrowings		7,099.7	6,266.9	6,660.7	6,289.7
Total borrowings		7,565.1	6,665.3	7,202.7	6,682.7
less: cash and cash equivalents		658.2	328.8	658.2	328.8
Net debt		6,906.9	6,336.5	6,544.5	6,353.9

(i) Face value represents the principal amount that has to be repaid on maturity, excluding any adjustments for loan fees, discounts and interest cash flows. Foreign currency debt is translated at hedged FX rates, with 100 per cent of the debt hedged for foreign currency risk at draw down.

(ii) The first call date for hybrid securities is September 2021.

(a) Foreign currency translation

All foreign currency transactions including foreign currency borrowings are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items denominated in foreign currencies, including foreign currency borrowings, are translated at the exchange rate existing at that date. Resultant exchange differences are recognised in the income statement for the year, except for exchange differences for qualifying cash flow hedges which are recognised in other comprehensive income.

The foreign currency risk associated with our foreign currency borrowings is hedged through the use of cross currency swaps. Refer to Note D.3.

(b) Fair values of financial instruments

We have a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings outlined above, the carrying amounts of these items are considered to be a reasonable approximation of their fair value as at 31 March 2018. The fair value of total borrowings as at 31 March 2018 was \$8,152.3 million (2017: \$7,297.8 million).

Notes to the consolidated financial statements

31 March 2018

Note D.2 Borrowings (continued)**(c) Financial covenants**

The terms of certain financing arrangements contain financial covenants that require maintenance of specified interest coverage ratios and gearing ratios. However, these covenants only apply if there are downward changes in credit ratings. In addition, there are change of control and/or ownership and cross default provisions. We monitor and report compliance with our financial covenants on a monthly basis. There have been no breaches during the year.

(d) Other bank guarantees

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The subsidiaries have guarantee facilities with a number of institutions amounting to \$15.0 million, of which \$6.6 million was provided to third parties at 31 March 2018 (2017: \$5.6 million).

(e) Changes in liability arising from financing activities

The table below details the movements in the Group's interest bearing liabilities for the year ended 31 March 2018:

	Cash flow movements (financing activities)				Non-cash flow movements			31
	1 April 2017	Proceeds	Repayments	Reclassification	Foreign exchange movements	Fair value adjustment	Funding costs	March 2018
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Current	398.4	-	(388.6)	537.5	(81.0)	(0.6)	(0.3)	465.4
Non-current	6,266.9	900.9	-	(537.5)	462.5	8.6	(1.7)	7,099.7
Total	6,665.3	900.9	(388.6)	-	381.5	8.0	(2.0)	7,565.1

Note D.3 Financial risk management

Our activities expose us to a number of financial risks, including:

- Interest rate risk - the risk that we suffer financial loss due to an adverse movement in interest rates on our borrowings or the impact changes in interest rates have on our regulated revenues.
- Currency risk - the risk that we suffer financial loss due to adverse exchange rate movements on our foreign currency denominated borrowings.
- Liquidity risk - the risk that an unforeseen event occurs which will result in us not being able to meet our payment obligations in an orderly manner.
- Credit risk - the risk that one or more of our counterparties will default on its contractual obligations resulting in financial loss to us and arises from our financial assets, comprising cash and cash equivalents, trade and other receivables and derivative financial instruments.

We manage our exposure to these risks in accordance with our Treasury Risk Policy which is approved by the Board. The policy is reviewed by the Audit and Risk Management Committee periodically. Any material changes are submitted to the Board for approval.

The objective of the Treasury Risk Policy is to document our approach to treasury risk management and to provide a framework for ongoing evaluation and review of risk management techniques. The policy provides an analysis of each type of risk to which we are exposed and the objective of and techniques for managing the risk, including identifying and reporting risks to management and the Board.

Notes to the consolidated financial statements

31 March 2018

Note D.3 Financial risk management (continued)

Our treasury team evaluates and hedges financial risks in close co-operation with the Group's operating units. The Treasury Risk Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating risks, the use of derivative financial instruments and investing excess liquidity.

The Treasury Risk Policy operates in conjunction with several other AusNet Services policies, including:

- The Authority Manual which sets out the approvals required for such things as investment of surplus funds, execution of hedging transactions, borrowings and issue of guarantees and indemnities;
- The Treasury Operations Manual which sets out the day-to-day Treasury front office processes such as cash management and the operations of the Treasury back office, such as settlement processes and bank account operations;
- The Refinancing and Hedging Strategy which sets out the refinancing and hedging strategies over the relevant financial period; and
- The AusNet Services Credit Metrics Policy which sets out target ranges for the key credit metrics that determine the Group's credit strength, such as the percentage of debt to the value of the R&CAB at balance date.

Together these policies provide a financial risk management framework which supports our objectives of finding the right balance between risk and reward to enhance profitability and business performance while minimising current and future exposures.

The material financial risks associated with our activities are each described below, together with details of our policies for managing the risk.

(a) Interest rate risk

We are exposed to the risk of movements in interest rates on our borrowings. In addition, our regulated revenues for the transmission and distribution businesses are directly impacted by changes in interest rates. This is a result of the 'building block' approach where interest rates are a major input in the determination of the regulatory weighted average cost of capital and consequently regulated revenues. The AER use a Trailing Average Portfolio approach to setting the weighted average cost of capital. This approach assumes that 10 per cent of the debt for each network is refinanced each year. As such, the average cost of capital is reset each year to take into account this assumed refinancing.

The objective of hedging activities carried out by us in relation to interest rate risk is to minimise the exposure to changes in interest rates by aligning the actual cost of debt with the cost of debt assumed by the regulator. The exposure is managed by maintaining the percentage of fixed rate debt to total debt at a level between 90 per cent and 100 per cent for the relevant business. We therefore consider net interest rate exposure, after hedging activities, to be minimal for the Group. The percentage of fixed rate debt to total debt (on a net debt basis) as at 31 March 2018 was 98.8 per cent (2017: 98.3 per cent).

We utilise interest rate swaps to manage our exposure to cash flow interest rate risk and achieve the targeted proportion of fixed rates on our debt portfolio. Under interest rate swaps, we agree to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable us to mitigate the risk of changing interest rates on debt held.

Notes to the consolidated financial statements

31 March 2018

Note D.3 Financial risk management (continued)**(a) Interest rate risk (continued)**

As at reporting date, we had the following financial assets and liabilities exposed to interest rate risk. The values disclosed below are the principal amounts, which differ from the carrying values and as such do not agree to the statement of financial position.

	2018	2017
	\$M	\$M
Financial assets		
Fixed rate instruments	650.0	231.1
Floating rate instruments	-	91.0
Financial liabilities (i)		
Fixed rate instruments	(6,475.5)	(6,254.9)
Floating rate instruments	(727.2)	(427.8)

- (i) The financial liabilities above include the impact of derivative financial instruments used to manage the interest rate and foreign currency exposures on those liabilities. Therefore, they represent the post hedge position. It should be noted that some fixed rate borrowings (post hedge) as at reporting date are only fixed for a portion of their term. This is because the maturity profile of borrowings differs from the AER's assumed refinancing profile of the regulated businesses. The remaining portion of this debt will be fixed when the AER resets the cost of debt to cover these periods.

Our exposure to changes in interest rates is limited to exposures denominated in Australian dollars due to our policy of mitigating interest rate risk exposure on foreign currency debt. As a result, the sensitivity analysis below has only been performed based on movements in Australian interest rates. As at reporting date, if Australian interest rates had increased and decreased by 0.54 per cent as at 31 March 2018 (2017: 0.80 per cent), with all other variables held constant, post-tax profit and equity would have increased/(decreased) as follows:

	Net profit after tax		Equity after tax (hedge reserve)	
	2018	2017	2018	2017
	\$M	\$M	\$M	\$M
Increase in Australian interest rates with all other variables held constant	0.5	0.7	194.7	293.4
Decrease in Australian interest rates with all other variables held constant	(0.1)	(1.4)	(205.1)	(315.8)

The judgements of reasonably possible movements were determined using statistical analysis of the 95th percentile best and worst expected outcomes having regard to actual historical interest rate data over the previous five years based on the three-month bank bill swap rate. We consider that past movements are a transparent basis for determining reasonably possible movements in interest rates.

Due to our interest rate risk management policies, the exposure to interest rate movements at any point in time is minimal. Therefore, the impact of a reasonably possible movement in interest rates on net profit after tax is minimal. The impact on equity due to any valuation change of derivative financial instruments in cash flow hedges will unwind to zero at maturity of the derivative.

(b) Currency risk

We are exposed to currency risk due to funding activities in offshore debt markets as a means of providing cost effective and efficient funding alternatives, as well as a result of undertaking certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters. The objective of our currency risk management program is to eliminate all foreign exchange risk on funding activities and material foreign exchange related transaction risk by utilising various hedging techniques as approved by the Board. Therefore, we consider our currency risk exposure to be minimal.

Notes to the consolidated financial statements

31 March 2018

Note D.3 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risks***(i) Accounting for financial instruments*

The Group designates derivative financial instruments as either fair value hedges or cash flow hedges:

	Fair value hedges	Cash flow hedges
Objective of the hedge	To mitigate the exposure to changes in fair value of certain borrowings. Fair value hedges are generally fixed rate designated for the terms of borrowings that fall outside of the price review periods for the regulated businesses.	To mitigate the variability in cash flows attributable to variable interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.
Treatment of changes in fair value of qualifying hedges	Recognised immediately in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.	The effective portion is recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in the hedge reserve are recycled in the income statement when the hedged item affects the income statement (generally when the forecast transaction that is hedged takes place). However, when the forecast transaction results in the recognition of a non-financial asset, the gains and losses are transferred from the hedge reserve and included in the measurement of the initial carrying amount of the asset.
Documentation of the hedge relationship	To ensure derivative financial instruments qualify for hedge accounting we document, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as our risk management objectives and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.	
Discontinuation of hedge accounting	Hedge accounting is discontinued when the hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting.	
	After discontinuation, the previously hedged asset or liability is no longer revalued for changes in fair value.	At that time, any cumulative gain or loss existing in the hedge reserve remains in hedge reserve and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedge reserve is immediately recognised in the income statement.

Notes to the consolidated financial statements

31 March 2018

Note D.3 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)***(ii) Measurement and classification*

We classify our derivative financial instruments between current and non-current based on the maturity date of the instrument. As a result, derivative financial instruments are classified as non-current, except for those instruments that mature in less than 12 months, which are classified as current.

At reporting date, our derivative financial instrument positions are as detailed below:

	Interest rate swaps	Forward foreign currency contracts	Cross- currency swaps	Total net derivative financial instruments
	\$M	\$M	\$M	\$M
2018				
Current assets	0.2	0.7	-	0.9
Non-current assets	71.3	0.1	430.2	501.6
Current liabilities	(0.8)	(0.6)	(76.4)	(77.8)
Non-current liabilities	(107.1)	(0.4)	(85.4)	(192.9)
Total derivative financial instruments	(36.4)	(0.2)	268.4	231.8
Consists of:				
- fair value hedges	59.8	-	(153.7)	(93.9)
- cash flow hedges	(95.7)	(0.2)	422.1	326.2
- not in a hedge relationship	(0.5)	-	-	(0.5)
Total derivative financial instruments	(36.4)	(0.2)	268.4	231.8
2017				
Current assets	5.7	-	-	5.7
Non-current assets	114.1	-	191.9	306.0
Current liabilities	(10.1)	(0.2)	-	(10.3)
Non-current liabilities	(81.5)	(0.5)	(221.1)	(303.1)
Total derivative financial instruments	28.2	(0.7)	(29.2)	(1.7)
Consists of:				
- fair value hedges	73.3	-	(197.7)	(124.4)
- cash flow hedges	(44.7)	(0.7)	168.5	123.1
- not in a hedge relationship	(0.4)	-	-	(0.4)
Total derivative financial instruments	28.2	(0.7)	(29.2)	(1.7)

Notes to the consolidated financial statements

31 March 2018

Note D.3 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)***(ii) Measurement and classification (continued)*

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the derivative financial instrument is designated and effective as a hedging instrument, in which case the timing of the recognition in the income statement depends on the nature of the hedge relationship.

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. Credit risk is obtained directly from the observable Credit Default Swap curves within Bloomberg for each of the relevant counterparties, with the Bilateral Credit Risk applied uniformly across all asset and liability positions as at the reporting date. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity. The unamortised value of the deferred credit risk adjustment for derivative financial instruments as at 31 March 2018 is \$38.2 million (2017: \$35.2 million).

Key estimates and judgements - Fair value of derivative financial instruments

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Derivative financial instruments are recognised at fair value and are measured using market observable data, and where appropriate, are adjusted for credit risk, liquidity risk and currency basis risk. Therefore, they are deemed level two within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

The fair value of derivative financial instruments is determined using valuation techniques and available market observable data as well as market corroboration based on active quotes. These include industry standard interest rates, foreign exchange and currency basis yield curves sourced directly from Bloomberg. Appropriate transaction costs and risk premiums are included in the determination of net fair value.

(iii) Offsetting derivative financial instruments

Derivative assets and liabilities are presented on a gross basis. Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default. Notwithstanding that these financial assets and liabilities do not meet the criteria for being presented on a net basis, if these netting arrangements were applied to the derivative portfolio as at 31 March 2018, derivative assets and liabilities would be reduced by \$186.0 million respectively (2017: \$163.7 million). Refer to the below table:

	Gross amounts in the financial statements	Amounts subject to master netting arrangements	Net amount
	\$M	\$M	\$M
2018			
Derivative financial assets	502.5	(186.0)	316.5
Derivative financial liabilities	(270.7)	186.0	(84.7)
	231.8	-	231.8
2017			
Derivative financial assets	311.7	(163.7)	148.0
Derivative financial liabilities	(313.4)	163.7	(149.7)
	(1.7)	-	(1.7)

Notes to the consolidated financial statements

31 March 2018

Note D.3 Financial risk management (continued)*(iv) Cash flow hedges*

The following table summarises movements in the hedged items and hedging instruments that were designated in cash flow hedges during the year:

	Change in value of hedged item used to measure ineffectiveness (i)	Change in value of hedging instrument used to measure ineffectiveness (i)	Nominal amounts of hedging instruments (i)
	\$M	\$M	\$M
Interest rate risk	28.2	(13.8)	13,105.6
Foreign currency risk – debt	(216.0)	215.0	5,715.4
Foreign currency risk – capital expenditure	(0.5)	0.5	29.9

- (i) Nominal amounts represent the total principal in each hedging instrument (derivative) in cash flow hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both cash flow and fair value hedges is \$13,135.5 million.

The following movements have occurred in the cash flow hedge reserve during the year, net of income tax:

	2018	2017
	\$M	\$M
Opening balance of cash flow hedge reserve	(17.8)	(80.9)
Amounts recognised in other comprehensive income, net of income tax:		
Changes in fair value of cash flow hedges (excluding foreign currency basis spreads)	(159.2)	(23.6)
Amounts reclassified to interest expense for effective hedges	49.8	72.4
Changes in foreign currency basis spreads	7.1	8.9
Tax effect of derivatives step up	3.0	5.4
Total amounts recognised in other comprehensive income, net of income tax	(99.3)	63.1
Closing balance of cash flow hedge reserve	(117.1)	(17.8)

Notes to the consolidated financial statements

31 March 2018

Note D.3 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)***(iv) Cash flow hedges (continued)*

The following table summarises the net cashflows receivable/(payable) under our cash flow hedges:

	2018 \$M	2017 \$M
Highly probable forecast asset purchase:		
Less than 1 year	0.1	(0.2)
1 – 2 years	(0.2)	(0.2)
2 – 5 years	(0.1)	(0.3)
	(0.2)	(0.7)
Borrowings:		
Less than 1 year	(39.8)	(80.7)
1 – 2 years	(36.9)	(59.3)
2 – 5 years	61.0	(44.3)
Greater than 5 years	37.6	(145.4)
	21.9	(329.7)

These amounts will impact the income statement in the same period as cash flows are expected to occur, with the exception of hedges of highly probable forecast transactions which will impact the income statement as the underlying asset is utilised.

(v) Fair value hedges

The following table summarises the hedged items included in fair value hedges and their impact on the financial statements:

	Carrying amount of the hedged item \$M	Accumulated amount of fair value adjustments on hedged items \$M	Gain/(loss) on remeasurement of hedged item \$M	Gain/(loss) on remeasurement of hedging instruments \$M	Nominal amounts of hedging instruments (i) \$M
AUD denominated borrowings	(2,167.7)	(61.5)	18.1	(9.9)	1,093.0
Foreign currency denominated borrowings	(5,397.4)	(327.8)	(55.3)	31.7	10,132.9

- (i) Nominal amounts represent the total principal in each hedging instrument (derivative) in fair value hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both cash flow and fair value hedges is \$13,135.5 million.

Notes to the consolidated financial statements

31 March 2018

Note D.3 Financial risk management (continued)

(d) Liquidity risk

We manage liquidity risk by maintaining adequate cash reserves, committed banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. These practices are governed by our liquidity management policies, which include Board approved guidelines covering the maximum volume of long term debt maturing in any one year, the minimum number of years over which debt maturities are to be spread and the timing of refinancing. In addition, short term bank debt and commercial papers must not represent more than an agreed percentage of the total debt portfolio.

The liquidity management policies ensure that we have a well-diversified portfolio of debt, in terms of maturity and source, which significantly reduces reliance on any one source of debt in any particular year. In addition, our investment grade credit rating ensures ready access to both domestic and offshore capital markets.

Financing facilities will be put in place at least six months before maturity of the debt being replaced or in the case of new debt at least six months before funding is required. "In place" is defined as meaning all documentation has been completed and settlement has occurred or if settlement has not occurred (e.g. committed but undrawn bank debt facilities) funding is committed and is not subject to a material adverse change in the market.

(i) Contractual cash flows

Liquidity risk is managed based on net contracted and forecast inflows and outflows from operating, financing and investing activities. The following table summarises the contractual cash flows of our non-derivative and derivative financial assets and liabilities based on the remaining earliest contractual maturities. The contractual cash flows are based on undiscounted principal and interest commitments, and foreign exchange rates at the reporting date.

Notes to the consolidated financial statements

31 March 2018

Note D.3 Financial risk management (continued)**(d) Liquidity risk (continued)***(i) Contractual cash flows (continued)*

2018	Notes	Principal at face value \$M	Carrying amount \$M	Total contractual cash flows \$M	Less than 1 year \$M	1 – 2 years \$M	2 – 5 years \$M	Greater than 5 years \$M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents		658.2	658.2	658.2	658.2	-	-	-
Accounts and other receivables	B.3	183.0	183.0	183.0	183.0	-	-	-
Desalination licence receivable	C.3	193.1	193.1	321.7	23.9	19.9	56.5	221.4
Derivative financial assets								
Interest rate swaps			71.5	89.7	18.3	18.3	39.8	13.3
Cross-currency swaps			430.2	6.1	(35.2)	76.2	3.6	(38.5)
Forward foreign currency contracts			0.8					
- Inflow				13.2	12.0	1.2	-	-
- Outflow				(12.4)	(11.3)	(1.1)	-	-
				1,536.8	1,259.5	848.9	114.5	99.9
								196.2
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	B.3	234.4	234.4	234.4	234.4	-	-	-
Bank debt facilities		4.5	4.0	4.5	4.5	-	-	-
Domestic medium term notes		2,012.4	2,063.8	2,670.2	94.6	444.1	806.8	1,324.7
Floating rate notes		100.0	99.9	106.9	3.4	103.5	-	-
USD senior notes		107.0	103.3	131.4	3.4	3.4	10.2	114.4
GBP senior notes		537.5	461.4	489.0	489.0	-	-	-
CHF senior notes		283.2	378.4	382.9	4.2	378.7	-	-
HKD senior notes		741.0	785.0	1,027.1	26.4	142.5	128.8	729.4
JPY senior notes		62.6	63.4	66.7	0.9	0.9	2.5	62.4
EUR senior notes		2,329.8	2,608.6	2,846.4	53.5	53.5	923.5	1,815.9
NOK senior notes		319.4	333.8	433.1	10.6	10.6	31.7	380.2
USD hybrid securities (i)		505.7	464.7	586.7	28.1	28.1	530.5	-
SGD hybrid securities (i)		199.6	198.8	237.0	10.9	11.0	215.1	-
Derivative financial liabilities								
Interest rate swaps			107.9	138.0	33.2	28.4	26.8	49.6
Cross-currency swaps			161.8	197.1	67.2	14.6	63.8	51.5
Forward foreign currency contracts			1.0					
- Inflow				(16.6)	(12.4)	(3.0)	(1.2)	-
- Outflow				17.6	13.0	3.3	1.3	-
				8,116.2	9,598.4	1,110.9	1,219.6	2,739.8
								4,528.1
Net cash outflow				(8,338.9)	(262.0)	(1,105.1)	(2,639.9)	(4,331.9)

(i) The table above assumes that the Group will exercise at the first call date in September 2021.

Notes to the consolidated financial statements

31 March 2018

Note D.3 Financial risk management (continued)**(d) Liquidity risk (continued)***(i) Contractual cash flows (continued)*

2017	Notes	Principal at face value \$M	Carrying amount \$M	Total contractual cash flows \$M	Less than 1 year \$M	1 – 2 years \$M	2 – 5 years \$M	Greater than 5 years \$M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents		328.8	328.8	328.8	328.8	-	-	-
Accounts and other receivables	B.3	214.1	214.1	214.1	214.1	-	-	-
Desalination licence receivable	C.3	202.0	202.0	342.8	24.6	20.5	58.1	239.6
Derivative financial assets								
Interest rate swaps			119.8	189.9	8.7	13.2	74.3	93.7
Cross-currency swaps			191.9	(27.7)	(19.1)	(20.6)	52.3	(40.3)
Forward foreign currency contracts			-					
- Inflow				1.8	1.8	-	-	-
- Outflow				(1.8)	(1.8)	-	-	-
				1,056.6	1,047.9	557.1	13.1	184.7
							293.0	
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	B.3	233.2	233.2	233.2	233.2	-	-	-
Bank debt facilities		93.0	93.0	93.0	93.0	-	-	-
Domestic medium term notes		1,754.7	1,817.4	2,260.3	382.7	80.8	779.2	1,017.6
Floating rate notes		100.0	99.8	111.0	3.4	3.6	104.0	-
USD senior notes		107.0	103.3	135.6	3.4	3.4	10.3	118.5
GBP senior notes		537.5	438.4	470.0	29.3	440.7	-	-
CHF senior notes		283.2	368.4	371.5	4.0	4.0	363.5	-
HKD senior notes		641.7	702.0	909.9	23.1	23.2	245.2	618.4
JPY senior notes		62.6	62.3	65.0	0.8	0.8	2.5	60.9
EUR senior notes		2,078.3	2,020.3	2,255.4	43.0	43.0	810.6	1,358.8
NOK senior notes		319.4	298.4	405.6	7.6	9.7	29.1	359.2
USD hybrid securities (i)		505.7	473.8	618.8	28.3	28.3	562.2	-
SGD hybrid securities (i)		199.6	188.2	234.1	10.3	10.3	213.5	-
Derivative financial liabilities								
Interest rate swaps			91.6	101.8	29.8	18.9	17.6	35.5
Cross-currency swaps			221.1	657.3	21.2	134.2	181.9	320.0
Forward foreign currency contracts			0.7					
- Inflow				(13.1)	(5.0)	(3.8)	(4.3)	-
- Outflow				13.8	5.3	4.0	4.5	-
				7,211.9	8,923.2	913.4	801.1	3,319.8
								3,888.9
Net cash outflow				(7,875.3)	(356.3)	(788.0)	(3,135.1)	(3,595.9)

(i) The table above assumes that the Group will exercise at the first call date in September 2021.

Notes to the consolidated financial statements

31 March 2018

Note D.3 Financial risk management (continued)**(d) Liquidity risk (continued)***(ii) Financing facilities*

We target a minimum net liquidity, defined as available short term funds and committed financing facilities. As at reporting date, we had the following committed financing facilities available:

	2018	2017
	\$M	\$M
Financing facilities (face value)		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
- Amount used	-	-
- Amount unused	2.5	2.5
	2.5	2.5
Unsecured working capital facility, reviewed annually:		
- Amount used	4.5	93.0
- Amount unused	95.5	7.0
	100.0	100.0
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement:		
- Amount used	-	-
- Amount unused	450.0	525.0
	450.0	525.0
Total financing facilities	552.5	627.5

Notes to the consolidated financial statements

31 March 2018

Note D.3 Financial risk management (continued)**(e) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to us and arises from our financial assets, comprising cash and cash equivalents, trade and other receivables and derivative financial instruments.

We have adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults (refer to Note B.3). Our exposure and the credit ratings of our counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Revenues from a single customer, AEMO (which is majority Government owned), in our electricity transmission segment, represents 29 per cent (2017: 26 per cent) of our total revenues. We are licensed to transmit electricity in Victoria, whereas AEMO is the provider of shared network services and the planner, authoriser, contractor and director of augmentation of the declared shared network in Victoria. A network agreement is in place between both parties whereby we receive network charges from AEMO for the use of our transmission network to transmit electricity to participants in the market. Due to the nature of this network agreement, we do not believe that there is any significant credit risk exposure on this customer. Therefore, we consider the credit risk exposure to be minimal.

In accordance with the Treasury Risk Policy, treasury counterparties each have an approved limit based on the lower of Standard & Poor's or Moody's credit rating. Counterparty limits are reviewed and approved by the Audit and Risk Management Committee and any changes to counterparties or their credit limits must be approved by the Chief Financial Officer and the Managing Director and must be within the parameters set by the Board as outlined in the Treasury Risk Policy.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. At balance date we had \$650.0 million on term deposit and \$393.0 million of cross currency and interest rate swaps with 'A' rated or higher Australian and international banks.

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents our maximum exposure to credit risk. The values disclosed below represent the market values in the event of early settlement (in the money market values), which differ from the carrying values and as such do not agree to the statement of financial position. The values below exclude any offsetting financial liabilities with the particular counterparty.

	2018	2017
	\$M	\$M
Financial assets and other credit exposures		
Cross currency swaps	445.8	193.6
AUD interest rate swaps	97.7	184.4

Notes to the consolidated financial statements

31 March 2018

Note D.4 Net finance costs

	2018	2017
	\$M	\$M
Finance income (i)		
Interest income	3.7	5.4
Return on desalination licence receivable	12.2	12.8
Total finance income	15.9	18.2
Finance costs (ii)		
Interest expense	308.6	328.8
Other finance charges – cash	3.4	3.2
Other finance charges – non-cash	3.6	6.4
Loss/(gain) on fair value hedges	15.4	(19.1)
Loss/(gain) on transactions not in a hedge relationship	0.1	(0.7)
(Gain)/loss on ineffective portion of cash flow hedges	(13.4)	2.7
Unwind of discount on provisions	0.2	2.6
Defined benefit net interest (income)/expense	(1.2)	0.2
Capitalised finance charges (iii)	(16.9)	(21.8)
Total finance costs	299.8	302.3
Net finance costs	283.9	284.1

- (i) Finance income comprises interest income on funds invested and the return on the desalination licence receivable (refer to Note C.3). Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.
- (ii) Finance costs comprise interest expense on borrowings, foreign exchange gains/losses, gains/losses on hedging instruments that are recognised in the income statement, unwinding of discount on provisions and the net interest cost in respect of defined benefit obligations. All borrowing costs are recognised in the income statement using the effective interest rate method, other than borrowing costs directly attributable to a qualifying asset which are capitalised into the cost of that asset.
- (iii) The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the average interest rate of 4.6 per cent (2017: 5.0 per cent) applicable to our outstanding borrowings at the end of the period.

Notes to the consolidated financial statements

31 March 2018

Note D.5 Equity

	Notes	2018 \$M	2017 \$M
Contributed equity			
Ordinary shares - fully paid	(a), (b)	5,172.8	5,153.2
Shares held by employee share plans trust	(c)	(10.3)	-
Total contributed equity		5,162.5	5,153.2

(a) Ordinary shares

Ordinary shares authorised and issued have no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of AusNet Services in proportion to the number of and amounts paid on the shares issued. Holders of ordinary shares are entitled to one vote on a show of hands or one vote for each ordinary share held on a poll at shareholders' meetings.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

(b) Movements in ordinary share capital

Date	Details	Issue price	Number of shares	\$M
1 April 2017	Opening balance		3,603,155,012	5,153.2
27 June 2017	Dividend Reinvestment Plan (i)	\$1.69	7,214,309	12.2
21 December 2017	Dividend Reinvestment Plan (i)	\$1.86	3,977,444	7.4
31 March 2018	Closing balance		3,614,346,765	5,172.8
1 April 2016	Opening balance		3,537,635,150	5,057.3
22 June 2016	Dividend Reinvestment Plan (i)	\$1.52	27,822,058	42.2
22 December 2016	Dividend Reinvestment Plan (i)	\$1.43	37,697,804	53.7
31 March 2017	Closing balance		3,603,155,012	5,153.2

(i) The value of DRP is net of transaction costs.

(c) Shares held by employee share plans trust

In FY2018 the Group established an employee share trust used as a delivery mechanism to satisfy future vesting entitlements for the Short Term Incentive Plan deferred equity rights for the Managing Director and the Long Term Incentive Plan (LTIP) performance rights. During the year, 5,958,915 shares were acquired on market at an average price of \$1.73 per share.

The share trust is held by Computershare Pty Ltd and for accounting purposes the trust is deemed to be controlled by AusNet Services. Accordingly, the shares held by the trust are consolidated into the Group's financial statements. The shares have been excluded for the earnings per share calculation in Note B.2.

Notes to the consolidated financial statements

31 March 2018

Note D.6 Dividends

The following dividends were approved and paid by AusNet Services to shareholders during the current and previous financial years:

Dividends	Paid by	Date paid	Cents per share	Total dividend \$M
Final FY2017 dividend - ordinary	AusNet Services	27 June 2017	4.400	158.6
Final FY2017 dividend - special	AusNet Services	27 June 2017	1.000	36.0
Interim FY2018 dividend	AusNet Services	21 December 2017	4.630	167.2
Total dividends			10.030	361.8

In relation to the dividends paid in the current financial year of \$361.8 million (2017: \$307.8 million), \$19.6 million (2017: \$95.9 million) was utilised in the allotment of new shares issued under the Dividend Reinvestment Plan (DRP), net of transaction costs.

Dividends	Paid by	Date paid	Cents per share	Total dividend \$M
Final FY2016 dividend	AusNet Services	22 June 2016	4.265	150.9
Interim FY2017 dividend	AusNet Services	22 December 2016	4.400	156.9
Total dividends			8.665	307.8

(a) Franking account

	2018	2017
	\$M	\$M
Franking credits available to shareholders	32.4	(26.4)

The above available amounts are based on the balance of the dividend franking account at year end adjusted for the increase in franking credits that will arise on payment of the income tax provision at 31 March 2018.

Notes to the consolidated financial statements

31 March 2018

Section E Group Structure

The following section provides information on our structure and how this impacts the results of the Group as a whole, including details of controlled entities and related party transactions.

Note E.1 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities within the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

The Group's financial statements incorporate the assets, liabilities and results of the following subsidiaries:

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2018	2017
AusNet Services Ltd	Australia	Ordinary	%	%
AusNet Services (Distribution) Pty Ltd (i)	Australia	Ordinary	100.0	100.0
AusNet Services (RE) Pty Ltd (i)	Australia	Ordinary	100.0	100.0
AusNet Distribution Group Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet LDP (No.1) Ltd	UK	n/a	100.0	100.0
AusNet LDP (No.2) Ltd	UK	n/a	100.0	100.0
AusNet Holdings General Partner Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Holdings (Partnership) Ltd Partnership	Australia	n/a	100.0	100.0
AusNet Services Holdings Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Electricity Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Asset Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet (No. 8) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet (No. 9) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Gas Services Pty Ltd	Australia	Ordinary	100.0	100.0
Select Solutions Group Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Services (Transmission) Pty Ltd (i)	Australia	Ordinary	100.0	100.0
AusNet Transmission Group Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Finance Pty Ltd	Australia	Ordinary	100.0	100.0
Geomatic Holdings Pty Ltd	Australia	Ordinary	100.0	100.0
Geomatic Technologies Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Services Insurance Ltd	Guernsey	Ordinary	100.0	100.0
AusNet Services Finance Trust	Australia	Ordinary	100.0	100.0

(i) These entities converted to proprietary companies during FY2018.

Notes to the consolidated financial statements

31 March 2018

Note E.2 Parent entity information**(a) Statement of financial position**

	2018	2017
	\$M	\$M
Current assets	207.0	225.9
Non-current assets	5,159.2	5,153.6
Total assets	5,366.2	5,379.5
Current liabilities	25.6	-
Non-current liabilities	-	26.1
Total liabilities	25.6	26.1
Contributed equity	5,162.5	5,153.2
Reserves	5.7	-
Retained profits	172.4	200.2
Total equity	5,340.6	5,353.4

(b) Statement of comprehensive income

	2018	2017
	\$M	\$M
Profit for the year	334.0	357.1
Total comprehensive income for the year	334.0	357.1

(c) Contingent liabilities

We are not aware of any contingent liabilities of the parent entity as at 31 March 2018 (2017: \$0).

Notes to the consolidated financial statements

31 March 2018

Note E.3 Related party transactions**(a) Major shareholders**

AusNet Services Ltd has two shareholders with a significant investment and board representation, being Singapore Power International Pte Ltd (SPI) and State Grid Corporation of China (State Grid). SPI's ultimate parent is Temasek Holdings (Private) Ltd (Temasek). State Grid has a controlling stake in Jemena Asset Management Pty Ltd (referred to as Jemena).

Under applicable accounting standards, Temasek and its subsidiaries (including SPI) and State Grid and its subsidiaries (including Jemena) are considered to be related parties of AusNet Services. These entities are not considered related parties under the *Corporations Act 2001*.

(i) Operational agreement with Jemena

During the year, we provided metering services, technical services and vegetation management services to the Jemena Group under a number of operational arrangements related to their electricity and gas networks. The agreement related to the services performed on Jemena's gas network was terminated on 29 September 2017 whereas the agreement related to the services performed on Jemena's electricity network was partially terminated, with metering and technical services to continue to be provided under the new agreements.

To ensure continued capital investment and network growth, Zinfra (a subsidiary of Jemena) is appointed as a delivery partner on our capital portfolio. These agreements have a term of two years with an option to extend for one year.

(b) Key management personnel

	2018	2017
	\$	\$
Short-term employee benefits	6,796,678	6,970,077
Post-employment benefits	364,354	395,441
Equity-based payments	1,196,906	2,195,997
Other long-term benefits	83,930	446,941
Termination benefits	-	564,217
	8,441,868	10,572,673

The Remuneration Report within the Directors' report contains details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 31 March 2018.

Notes to the consolidated financial statements

31 March 2018

Note E.3 Related party transactions (continued)**(c) Transactions with related parties**

We engage in a wide variety of transactions with entities in the Temasek Group in the normal course of business on terms similar to those available to other customers. Such transactions include but are not limited to telecommunication services and leasing of properties. These related party transactions are carried out on terms negotiated between the parties which reflect an arm's length basis. As a result, transactions with Temasek interests other than the Singapore Power Group have been excluded from the disclosures below.

We also provide electricity distribution and electricity transmission services to Jemena. AusNet Services earns a regulated return from the provision of these services as these services are regulated by the AER.

The following transactions occurred with related parties within the Singapore Power and State Grid groups for the financial year:

	2018	2017
	\$'000	\$'000
Sales of goods and services		
Regulated revenue (i)	8,313	9,157
Services revenue	15,162	22,346
Purchases of goods and services		
Other expenses	2,792	2,965
Property, plant and equipment (construction services)	108,298	77,265
Dividends paid, net of DRP	171,746	104,645

- (i) Represents revenues from the provision of electricity distribution and electricity transmission services which are regulated by the AER.

The following balances are outstanding at the reporting date in relation to transactions with related parties within the Singapore Power and State Grid groups:

	2018	2017
	\$'000	\$'000
Current receivables (sale of goods and services)		
Singapore Power entities	192	38
Jemena (i)	3,133	3,247
Current payables and other liabilities (purchase of goods)		
Jemena	27,473	21,546

No allowance for impairment loss has been raised in relation to any outstanding balances due from related parties.

- (i) Includes outstanding amounts from the provision of electricity distribution and electricity transmission services which are regulated by the AER.

Notes to the consolidated financial statements

31 March 2018

Section F Other disclosures

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

Note F.1 Remuneration of auditors

During the year the following fees were paid or payable for services provided by KPMG and its related practices:

	2018	2017
	\$'000	\$'000
Audit and review services		
Audit and review of financial statements	1,439	1,620
Audit of regulatory returns (i)	500	506
Total remuneration for audit and review services	1,939	2,126
Other services		
Other assurance, taxation and advisory services	292	259
Total remuneration for other services	292	259
Total remuneration of auditors	2,231	2,385

- (i) It is our policy to employ KPMG to perform the audit of regulatory returns as these returns represent an extension of statutory audit services and we gain efficiencies when the services are performed by the same audit firm.

Note F.2 Defined benefit obligations

We make contributions to two defined benefit superannuation plans that are managed by Equisuper. The funds provide defined benefit amounts to 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. All new members receive defined contribution, accumulation style benefits.

The defined benefit superannuation plans are administered by a trust that is legally separated from the Group. The trustees consist of both employee and employer representatives and an independent chair, all of whom are governed by the scheme rules. The trustees are responsible for the administration of plan assets and for the definition of plan strategy.

	2018	2017
	\$M	\$M
Total amount included in the statement of financial position in respect of the defined benefit plans is as follows:		
Present value of defined benefit obligations	(261.0)	(267.3)
Fair value of plan assets	312.9	299.5
Net asset arising from defined benefit obligations	51.9	32.2

Amounts recognised in the income statement in respect of the defined benefit plans are as follows:

Current service cost	6.2	7.1
Net interest (income)/expense on defined benefit obligation	(1.2)	0.3
Total	5.0	7.4
Remeasurement gains recognised during the year in OCI	20.6	46.5

Notes to the consolidated financial statements

31 March 2018

Note F.2 Defined benefit obligations (continued)

Each year we engage an independent actuary to perform actuarial reviews of the AusNet Transmission Group Pty Ltd and AusNet Electricity Services Pty Ltd defined benefit funds.

Our net obligation in respect of the defined benefit superannuation funds is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and recognised after deducting the fair value of any plan assets.

The discount rate is the yield at the balance date on corporate bonds that have maturity dates approximating the terms of our obligations. A qualified actuary performs the calculation using the projected unit credit method.

Remeasurements comprise actuarial gains and losses and the return on plan assets (excluding interest). They are recognised in full directly in retained profits in the period in which they occur and are presented in other comprehensive income.

When the calculation of the net obligation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

We expect to make contributions to the defined benefit plans during the next financial year at a consistent level to FY2018. The Target Funding method is used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level which is expected to result in the plans' assets equalling 105 per cent of the plans' liabilities within five years. The defined benefit superannuation plans expose us to additional actuarial, interest rate and market risk.

(a) Movement in defined benefit obligation

	2018	2017
	\$M	\$M
Movements in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	267.3	298.0
Current service cost	6.2	7.1
Interest cost	10.4	9.8
Contributions by plan participants	2.4	2.7
Actuarial gain	(4.4)	(22.5)
Benefits, taxes and premiums paid	(20.9)	(27.8)
Closing defined benefit obligations	261.0	267.3
Movements in the fair value of plan assets were as follows:		
Opening fair value of plan assets	299.5	286.7
Interest income	11.6	9.5
Actual return on fund assets less interest income	16.2	24.0
Contributions from the employer	4.1	4.4
Contributions by plan participants	2.4	2.7
Benefits, taxes and premiums paid	(20.9)	(27.8)
Closing fair value of plan assets	312.9	299.5

The actual return on plan assets was a gain of \$27.8 million (2017: gain of \$33.5 million).

Notes to the consolidated financial statements

31 March 2018

Note F.2 Defined benefit obligations (continued)**(b) Analysis of plan assets**

Plan assets can be broken down into the following major categories of investments:

	2018	2017
	%	%
Investments quoted in active markets:		
Australian equities	15	29
International equities	16	19
Fixed interest securities	17	12
Unquoted investments:		
Property	8	9
Growth alternative	16	10
Defensive alternative	9	12
Cash	19	9
	100	100

Plan assets do not comprise any of the Group's own financial instruments or any assets used by Group companies.

(c) Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	Defined benefit expense		Defined benefit obligation	
	2018	2017	2018	2017
	%	%	%	%
Key assumptions				
Discount rate	4.1	3.5	3.7	4.1
Expected salary increase rate	3.8	3.8	3.8	3.8

As at 31 March 2018, the weighted average duration of the defined benefit obligation was 8 years (2017: 8 years).

Key estimates and judgements - Defined benefit plans

A number of estimates and assumptions are used in determining defined benefit assets, obligations and expenses. These estimates include salary increases, future earnings and rates of return. Any difference in estimates will be recognised in other comprehensive income and not through the income statement.

The net liability from defined benefit obligations recognised in the consolidated statement of financial position will be affected by any significant movement in investment returns and/or interest rates.

Notes to the consolidated financial statements

31 March 2018

Note F.2 Defined benefit obligations (continued)**(d) Sensitivity analysis**

Changes in the relevant actuarial assumptions as at reporting date, with all other variables held constant, would result in an increase/(decrease) in the value of the defined benefit obligation as shown below:

	Increase \$M	Decrease \$M
Defined benefit obligation		
Discount rate (0.5 per cent movement)	(12.1)	13.0
Expected salary increase rate (0.5 per cent movement)	8.5	(8.2)

When calculating the above sensitivity analysis, the same method has been applied as when calculating the defined benefit liability recognised in the consolidated statement of financial position.

(e) Defined contribution expense

During the year, we contributed \$17.5 million of defined contribution benefit to employees (2017: \$19.7 million).

Note F.3 Share-based payments

We provide benefits to some of our employees (including key management personnel) in the form of share based payments, whereby part of an employees' remuneration is or may be provided in exchange for shares or rights over shares (equity settled transactions) in order to align to shareholder outcomes. The granting of such shares or rights may be subject to satisfaction of certain conditions.

The cost of equity settled transactions is recognised over the period in which the conditions are fulfilled (the vesting period), ending on the date that relevant employees become entitled to the award (the vesting date). At each subsequent reporting date until vesting, the cumulative charge to the income statement is in accordance with the vesting conditions.

(a) Long term incentive plan

We have a Long Term Incentive Plan (LTIP) for executives and other senior management identified by the Board. The plan is based on the grant of performance rights (PRs) that vest into shares at no cost to the employee subject to performance hurdles (refer to the Remuneration Report for further detail). Settlement of the performance rights is made in ordinary shares.

The Group has the following grants on foot at 31 March 2018:

Plan	Grant date	Vesting date	PRs granted	Value of PRs at grant date
LTIP 2017	1 April 2017	31 March 2020	3,327,515	\$4,026,293
LTIP 2016	1 April 2016	31 March 2019	3,542,013	\$3,612,853
LTIP 2015	1 April 2015	31 March 2018	3,768,821	\$3,768,821

Notes to the consolidated financial statements

31 March 2018

Note F.3 Share-based payments (continued)

The fair value of each performance right is estimated on the grant date using the Black-Scholes model. This model used the following inputs for each tranche of rights:

	LTIP 2017	LTIP 2016	LTIP 2015
Share price at grant date	\$1.77	\$1.56	\$1.48
Exercise price	\$0.0	\$0.0	\$0.0
Expected volatility	20%	20%	20%
Risk-free interest rate	1.70%	1.61%	2.05%
Dividend yield	5.75%	6.00%	6.00%
Expected life of performance rights	36 months	36 months	36 months

The expected volatility is based on the Group's historical volatility and is designed to be indicative of future trends, which may not reflect actual volatility.

Reconciliation of equity rights on issue:

	2017 Grant	2016 Grant	2015 Grant	FY2018 Total	FY2017 Total
Opening balance	-	2,925,063	3,031,521	5,956,584	3,725,213
Granted during the year	3,327,515	-	-	3,327,515	3,542,013
Lapsed during the year	(131,066)	(210,228)	(620,408)	(961,702)	(1,039,292)
Modified during the year	-	-	-	-	(271,350)
Vested during the year (i)	-	-	(2,411,113)	(2,411,113)	-
Closing balance	3,196,449	2,714,835	-	5,911,284	5,956,584

(i) The 2015 Grant vested to 85.9 per cent based on the vesting assessment performed at 31 March 2018. Participants with vested rights will be issued shares from the employee share plans trust in May 2018.

An expense of \$2.847 million has been recognised for the year ended 31 March 2018 (2017: \$1.773 million) in relation to equity-settled share-based payments.

Note F.4 Contingent liabilities and contingent assets

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

Other than as listed above, we are not aware of any contingent liabilities or assets as at 31 March 2018 (2017: \$0).

Notes to the consolidated financial statements

31 March 2018

Note F.5 New accounting standards not yet adopted

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which will impact the Group in the period of initial adoption. They were available for early adoption for the Group's annual reporting period beginning 1 April 2017, but have not been applied in preparing this financial report:

(a) AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and associated Interpretations.

The primary impact of transition to AASB 15 has been the deferral of certain regulated excluded services and unregulated transmission revenue, primarily where the Group provides access to transmission infrastructure over 25-30 years. Some of these contracts have invoicing profiles that are front-ended. Under AASB 15, these contracts comprise of a single performance obligation satisfied over time and revenue is required to be recognised evenly over the contract term. Had AASB 15 always been applied, less revenue would have been recognised in previous periods, and more revenue in future periods. The assets and revenue associated with this adjustment are not included in our Regulated Asset Base.

The Group will adopt AASB 15 from 1 April 2018, applying the cumulative effect transition method. Under this method, there will be no restatement of comparative figures in the financial statements or notes. Instead, opening retained earnings will be adjusted in the current period. Management has performed a detailed review of customer contracts as at 31 March 2018. Based on this review, the impact of transition to AASB 15 is summarised below:

Consolidated statement of financial position as at 31 March 2018:

	Before adoption of AASB 15 \$M	Impact of AASB 15 \$M	Adjusted \$M
LIABILITIES			
Current liabilities			
Payables and other liabilities	280.4	0.9	281.3
Total current liabilities	920.5	0.9	921.4
Non-current liabilities			
Deferred revenue	87.1	47.5	134.6
Deferred tax liabilities	611.5	(14.5)	597.0
Total non-current liabilities	8,040.8	33.0	8,073.8
Total liabilities	8,961.3	33.9	8,995.2
EQUITY			
Retained profits	1,048.9	(33.9)	1,015.0
Total equity	3,556.0	(33.9)	3,522.1

If AASB 15 was in effect during the FY2018 year, the impact would have been as presented below. Management expect that the impact on the FY2019 results will not be materially different to the FY2018 impact.

Consolidated income statement for the year ended 31 March 2018:

	Before adoption of AASB 15 \$M	Impact of AASB 15 \$M	Adjusted \$M
Revenue	1,909.8	(2.9)	1,906.9
Profit before income tax	416.6	(2.9)	413.7
Income tax expense	(125.2)	0.9	(124.3)
Profit for the year	291.4	(2.0)	289.4

Notes to the consolidated financial statements

31 March 2018

Note F.5 New accounting standards not yet adopted (continued)

(b) AASB 16 Leases

AASB 16 will require the recognition of all leases for a lessee on balance sheet, with limited exceptions for short term and low value leases, thereby removing the off balance sheet treatment currently applied to operating leases. In addition, lease expenses will be recognised as depreciation and interest expenses.

The Group will adopt AASB 16 from 1 April 2019, applying the cumulative catch up transition method. Under this method, a lease liability balance will be recognised based on the remaining outstanding cash flows under the Group's operating leases, discounted to present value. A right-of-use asset will be recognised applying the simplified transition approach which results in the right-of-use asset having the same value as the lease liability. No adjustments to retained earnings or restatements of prior periods are made under this method.

Management performed a review of the Group's operating lease population. Based on this review, the impact of transition to AASB 16 would be a reduction in operating lease rental expense of approximately \$11 million, with offsetting increases in depreciation and interest expense. Based on the current lease population and renewal assumptions, the right-of-use asset and lease liability recognition would be approximately \$100 million if the Group were to early adopt AASB 16 from 1 April 2018. AusNet Services does not intend on early adopting this new lease accounting standard.

Note F.6 Events occurring after the balance sheet date

(a) Dividend

Since the end of the financial year, the Directors have approved a final dividend for 2018 of \$167.0 million (4.62 cents per share) to be paid on 28 June 2018. The final dividend will be unfranked. The DRP will be suspended for the final FY2018 dividend as a result of the Singapore Stock Exchange delisting in progress.

(b) Singapore Stock Exchange (SGX) delisting

On 2 May 2018 AusNet Services announced its intention to voluntarily delist from the SGX effective 16 July 2018. The Board took the decision to delist, having considered both the advantages and disadvantages of our shares being listed on the SGX, concluding that the delisting is in the best interests of AusNet Services as a whole. The delisting was identified as an initiative to reduce administrative costs, simplify our processes and drive efficiency.

Currently the SGX listing is approximately three per cent of the total AusNet Services share register and delisting is not expected to affect Singapore institutional investor appetite. Singapore Power (SP)'s shares are held on the ASX and therefore SP's shareholding is unaffected by this announcement.

No general meeting will be convened to obtain the approval of AusNet Services shareholders to the delisting as the Listing Rules of the ASX and the Listing Manual of the SGX do not require AusNet Services to hold such a general meeting. SGX shareholders will have the option to sell their shares under the Share Sale Facility by 16 July 2018; otherwise their shares will be transferred to the Australian register (and quoted on the ASX).

(c) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2018 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- (a) the operations in financial years subsequent to 31 March 2018 of the Group;
- (b) the results of those operations; or
- (c) the state of affairs, in financial years subsequent to 31 March 2018, of the Group.

Directors' declaration

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

- (a) the financial statements and notes set out on pages 46 to 99, and the remuneration disclosures that are contained in the Remuneration report set out on pages 21 to 41 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 March 2018 and of its performance for the financial year ended on that date;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Section A; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.



Peter Mason
Chairman

Melbourne
13 May 2018



Nino Ficca
Managing Director

Melbourne
13 May 2018



Independent Auditor's Report

To the shareholders of AusNet Services Ltd

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of AusNet Services Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 March 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 31 March 2018
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Recognition of revenue
- Valuation of non-current assets, including property, plant and equipment and intangible assets
- Accounting for project related expenditure
- Valuation and accounting for derivatives

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of revenue (AUD\$1,909.8m)

Refer to Note B.1 Segment results, Note B.3 Working capital and Note F.5 New accounting standards not yet adopted of the Financial Report.

The key audit matter

Revenue recognition is a key audit matter due to the nature of the regulatory framework and billing process for the distribution of electricity and gas, and transmission of electricity in Victoria, which adds complexity to our audit approach. In particular:

- the application of regulator approved tariff rates, which are used to bill customers for the distribution of electricity and gas, and transmission of electricity in Victoria. The Group's regulatory price determinations promulgated by various regulatory bodies are routinely revised; and
- the inherent complexity in the Group's customer billings processes to estimate energy consumed and to determine the relevant tariff rates.

In addition, the Group disclosed the expected impact of AASB 15 *Revenue from Contracts with Customers*, when it will be adopted at 1 April 2018. Given the significance of changes to accounting standards for Revenue, additional audit effort was applied to these disclosures.

How the matter was addressed in our audit

Our procedures included:

- involving our regulatory advisory specialists and considering the impact of relevant regulatory price determinations on the Group's revenue, including developments in respect of the Australian Energy Regulator's (AER) Transmission Revenue Reset Final Decision issued in April 2017 and the Gas Distribution Access Arrangement issued in November 2017;
- working with our Information Technology specialists and testing the key controls in the revenue process including the reconciliation between the metering systems and the billing system, and the validation of metering data during billing periods;
- evaluating the appropriateness of the Group's accounting policies for revenue recognition against accounting standard requirements;
- comparing tariff rates charged to customers to the regulator approved tariff rates for the time the services were provided;
- performing sample testing of transmission regulated revenues recorded, comparing relevant amounts to invoices and cash receipts;
- testing key controls within the billing system which calculate electricity and gas distribution revenue based on the Group's billing process;
- analysing revenue against historical performance and regulatory price determinations;

	• reading a sample of customer contract types to evaluate the change, if any, in revenue recognition in accordance with the transitional impact of AASB 15 and comparing to the Group's disclosure.
--	---

Valuation of non-current assets, including property, plant and equipment (AUD \$10,291.8m) and intangible assets (AUD \$550.1m)

Refer to Note C.1 Property, Plant and Equipment, C.2 Intangible Assets, and C.4 Impairment of non-current assets of the Financial Report.

The key audit matter	How the matter was addressed in our audit
The valuation of non-current assets is a key audit matter due to the: • complex nature of the regulatory framework for determining revenue and expenditure applicable to each of the Group's regulated CGU's; • complexity in auditing the forward-looking assumptions applied to the Group's discounted cash flow models for each CGU given the significant assumptions involved. The main assumptions included those relating to terminal values, expected capital and operating expenditure, expected returns from future regulatory determinations, inflation, growth rates and discount rates; • challenges associated with auditing the Group's long term forecast cash flow model having regard to emerging regulatory change, technology and market changes, and accounting standard requirements; In addition, the Group restructured within its Commercial Energy Services business during the year, necessitating our consideration of the Group's allocation of goodwill to the CGUs to which they belong based on the management and monitoring of the business.	Our procedures included: • testing the key controls for the cash flow models, including Board approval of key assumptions and the 5 year Financial Plan, which form the basis of cash flow forecasts; • assessing the Group's cash flow model assumptions by: • comparing regulated cash flow assumptions to regulatory determinations relevant to the forecast cash flow period; • comparing unregulated cash flow assumptions to customer contracts and historical trends; • checking the relevant cash flow forecasts to the 5 year Financial Plan; • using our industry knowledge and information published by regulatory and other bodies to assess the reasonableness of assumptions and the impact of technology, market and regulatory changes on those assumptions; • involving our valuation specialists and assessing the reasonableness of the discount rates by considering comparable market rate information and evaluating the economic assumptions relating to cost of debt and cost of equity; • comparing carrying values of regulated CGUs to available market data, such as implied earnings and asset multiples of comparable entities; and • for regulated assets, assessing the appropriateness of using a long term cash flow forecast against accounting standard requirements by considering industry practice

	and the long term nature of the Group's regulated asset base. • assessing the accuracy of previous forecasts of the Group to inform the areas on which to focus in the current financial year; • assessing the Group's determination of carrying values of CGUs against the requirements of the accounting standards; • evaluating the Group's sensitivity analysis in respect of the key assumptions, including the identification of areas of estimation uncertainty and reasonably possible changes in key assumptions; • assessing the appropriateness of the related financial statement disclosures against accounting standard requirements; • We analysed the restructure of the Commercial Energy Services business and the Group's internal reporting to assess the Group's monitoring and management of activities, and the consistency of the allocation of Goodwill to CGUs.
--	--

Accounting for project related expenditure (AUD \$702.6m total additions)	
Refer to Note C.1 Property, plant and equipment of the Financial Report.	
The key audit matter	How the matter was addressed in our audit
Project related expenditure is a key audit matter due to the: • significance of capital and operating expenditure, in respect of building and maintaining safe and reliable networks, to both the statement of financial position and income statement; • Number of significant ongoing projects including the major terminal station rebuilds at Richmond, Brunswick and West Melbourne, the Rapid Earth Fault Current Limiter (REFCL) program, and new wind farm assets; and • the complexity in auditing judgements	Our procedures included: • testing the key controls for the: • authorisation of new projects; • monitoring of actual project expenditure against approved budgeted expenditure; • allocation between capital and operating expenditure in accordance with accounting standards. • analysing the indirect cost (e.g. corporate overhead, labour and finance cost) allocation methodology by challenging the underlying assumptions applied in the Activity Based Costing survey and capitalised finance charge models, and comparing the allocation of indirect costs against historical trends. For a sample of projects, our procedures included:

made in respect of: • the classification between capitalised and operating expenditure; • whether capital projects represent future benefits to the Group; • whether indirect costs such as labour and overheads were allocated between capital and operating expenditure in accordance with accounting standards; and • the determination of the useful lives of capitalised assets.	• assessing the nature of costs capitalised as to future benefits to the Group in accordance with criteria in the accounting standards; • consideration of individual asset impairments, the impact of asset retirements on depreciation expense and decommissioning provisions; • assessing the actual project spend to budgeted spend by comparing approved budgets to actual costs. This testing was conducted to assess: • whether additional costs represent future benefits to the Group capable of capitalisation; and • authorisation and allocation of overspend in accordance with Group policy. • evaluating the Group's assessment of the useful life of the capitalised assets, for consistency with the Group's accounting policies, and accounting standard requirements.
---	---

Valuation and accounting for derivatives (AUD\$502.5m assets; AUD\$270.7m liabilities)

Refer to Note D.3 Financial risk management of the Financial Report.

The key audit matter	How the matter was addressed in our audit
Valuation and accounting for derivatives is a key audit matter due to the: • size and complexity of the Group's derivative portfolios, in particular cross currency and interest rate swaps hedging foreign currency and Australian dollar denominated fixed and floating rate debt; • the Group undertaking capital management activities during the year impacting on the Group's derivative portfolios and creating new hedge relationships; and • inherent complexity and judgement in applying accounting principles in the valuation and disclosure of derivatives and related hedging activities. In assessing this key audit matter, we involved our Financial Instrument and	With the assistance of our Financial Instrument and Treasury specialists, our procedures included: • evaluating the appropriateness of valuation methodologies and accounting for hedging activities against accounting standard requirements; • assessing and challenging the Group's market inputs and assumptions underlying the valuation of derivatives. We compared market inputs and assumptions to independently sourced market and credit data sets including spot foreign exchange rates, currency interest rate curves, currency basis spreads and credit pricing curves; • evaluating a sample of derivative fair valuations using independent market observable inputs and industry accepted valuation techniques; • evaluating the adequacy of hedge designation documentation for a sample of new hedges in relation to the Group's documented Treasury Risk Management

Treasury specialists, who have industry specific experience and detailed knowledge of the complex accounting requirements.	policy and accounting requirements; • obtaining independent confirmations from counterparties with which the Group has borrowings or derivative financial instruments and comparing these to accounting records; • evaluating the appropriateness of the classification and presentation of derivative financial instruments and related financial risk management disclosures against accounting standard requirements.
--	--

Other Information

Other Information is financial and non-financial information in AusNet Services Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Operating and Financial Review, Directors' Report, and Remuneration Report. The 2018 Highlights, Chairman's Message and Managing Director's Report are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of AusNet Services Ltd for the year ended 31 March 2018, complies with *Section 300A of the Corporations Act 2001*.

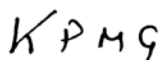
Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

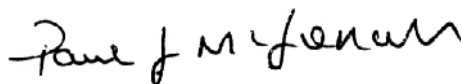
Our responsibilities

We have audited the Remuneration Report included in pages 21 to 41 of the Directors' report for the year ended 31 March 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



Paul J McDonald

Partner

Melbourne

13 May 2018

GLOSSARY OF TERMS

AASB	Australian Accounting Standards Board
ACN	Australian Company Number
ACCC	Australian Competition and Consumer Commission
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
APES	Accounting Professional & Ethical Standard
AER	Australian Energy Regulator
AGM	Annual General Meeting
AMI	Advanced Metering Infrastructure
ARMC	Audit and Risk Management Committee
ASX or Australian Securities Exchange	ASX Limited or the securities exchange which it operates
ATO	Australian Taxation Office
AUD	Australian dollar
CAGR	Compound annual growth rate
CAM	Cost Allocation Methodology
CES	Commercial Energy Services
CFC	Capitalised finance charges
CFV	Common or central funding vehicle
CGU	Cash-generating unit
CHF	Swiss franc
COAG	Council of Australian Governments
Corporate Restructure	The corporate restructure under which the previous Stapled Entities became wholly owned by AusNet Services Ltd
Corporations Act (Cth)	Corporations Act 2001 (Cth) of Australia
CY	Indicates federal legislation of the Commonwealth of Australia
DRP	Calendar year ended 31 December
DUoS	Dividend Reinvestment Plan
EBITDA	Distribution use of system charge
EDPR	Earnings before interest, tax, depreciation and amortisation
EPS	Electricity Distribution Price Review
ESC	Earnings per share
EUR	Essential Services Commission
FAR	Euro
FFO	Fixed annual remuneration
FX	Funds from operations
FY	Foreign exchange
GAAR	Financial year ended 31 March
GBP	Gas Access Arrangement Review
	Pound sterling

GSL	Guaranteed service level payments – penalties for unplanned outages
GST	Goods and services tax
GWh	Gigawatt hour, a unit of energy equal to one billion watt hours
HKD	Hong Kong dollar
HSEQ	Health and Safety, Environment and Quality
HV	High Voltage
ICR	Interest cover ratio
IFRS	International Financial Reporting Standards
Jemena	SGSP (Australia) Assets Pty Ltd (“SGSPAA”) and its Subsidiaries trading as “Jemena” or “Zinfra Group” (as applicable)
JPY	Japanese yen
KMP	Key management personnel
KPI	Key performance indicator
KPMG	The current external auditors of AusNet Services
kV	Kilovolts, a unit of voltage equal to one thousand volts
LTi	Lost time injury
LTIP	Long term incentive plan
MD	Managing Director
MTI	Medical treatment injury
Moody’s	Moody’s Investors Services, Inc.
NED	Non-Executive Director
NER	National Electricity Rules
NEG	National Energy Guarantee
NEM	National Electricity Market
NGER	National Greenhouse and Energy Reporting Act 2007 (Cth)
NOK	Norwegian kroner
NPAT	Net profit after tax
OCI	Other comprehensive income
PJ	Petajoules, a unit of energy equal to one quadrillion (10 ¹⁵) joules
Power of Choice	The Australian Energy Market Commission’s competitive framework designed to promote innovation and lead to investment in advanced meters that deliver services valued by consumers at a price they are willing to pay.
RAB	The RAB represents the value, as assessed by the AER, of past regulated network investments. This is the value on which the AusNet Services Group can expect to earn a return over the economic life of its network assets.
REFCL	Rapid Earth Fault Current Limiter
R&CAB	Regulated and Contracted Asset Base. Includes the RAB as well as contestable transmission assets, for example, the Victorian desalination contract.
ROIC	Return on invested capital
RES	Regulated Energy Services

RIFR	Recordable injury frequency rate
ROE	Return on equity
SGD	Singapore dollar
SGX or SGX-ST	Singapore Exchange Securities Trading Limited or the securities exchange which it operates
Singapore Power Group	Singapore Power Limited and its Subsidiaries
SPI	Singapore Power International Pte Ltd
Standard & Poor's	Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc.
State Grid	State Grid Corporation of China
Stapled Group	The former corporate structure of AusNet Services comprising AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd and AusNet Services Finance Trust as a combined entity.
STI	Short term incentive
STPIS	Service Target Performance Incentive Scheme
Temasek	Temasek Holdings (Private) Ltd
TRR	Transmission Revenue Reset
TSR	Total Shareholder Return
TUoS	Transmission use of system
(Vic)	Indicates state legislation of the State of Victoria
UK	United Kingdom
USA	United States of America
USD	United States dollar
WACC	Weighted average cost of capital
Victorian State Government	The government of the State of Victoria
VWAP	Volume-weighted average price, a trading benchmark calculated by adding up the dollars traded for every transaction (price multiplied by number of shares traded) and then dividing by the total shares traded for the day

REGISTERED OFFICE OF THE ISSUER

Level 31
2 Southbank Boulevard
Southbank VIC 3006
Australia

REGISTERED OFFICE OF THE GUARANTORS

Level 31
2 Southbank Boulevard
Southbank VIC 3006
Australia

ARRANGERS

Citigroup Global Markets Singapore Pte. Ltd.

8 Marina View
#21-00 Asia Square Tower 1
Singapore 018960

Morgan Stanley Asia (Singapore) Pte.

23 Church Street
#16-01 Capital Square
Singapore 049481

DEALERS

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

Citigroup Global Markets Limited

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

HSBC Bank plc

8 Canada Square
London E14 5HQ
United Kingdom

Morgan Stanley & Co. International plc

25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

PRINCIPAL PAYING AGENT

Citibank N.A.

c/o Ground Floor
1 North Wall Quay
Dublin
Ireland

TRUSTEE

Citicorp Trustee Company Limited

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

AUDITORS TO THE ISSUER AND EACH GUARANTOR

KPMG

Tower Two
Collins Square
727 Collins Street
Melbourne VIC 3008
Australia

LEGAL ADVISERS

to the Issuer and the Guarantors

in respect of Australian and English law

King & Wood Mallesons

Governor Phillip Tower

1 Farrer Place

Sydney NSW 2000

Australia

to the Arrangers and the Dealers

in respect of English law

Linklaters Singapore Pte. Ltd.

One George Street

#17-01

Singapore 049145