AusNet Services Holdings Pty Ltd
ACN 086 006 859

Interim Financial Report

For the financial period ended 30 September 2017

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This interim financial report covers the consolidated entity consisting of AusNet Services Holdings Pty Ltd and its subsidiaries. The interim financial report is presented in Australian dollars.

AusNet Services Holdings Pty Ltd is a company limited by shares, incorporated and domiciled in Victoria, Australia. Its registered office and principal place of business is:

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of the Group for the year ended 31 March 2017 and any public announcements made by AusNet Services Holdings Pty Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth).

The interim financial report was authorised for issue by the Directors on 14 November 2017.

Directors' Report

The Directors of AusNet Services Holdings Pty Ltd (the Company) present their report on the general purpose interim financial report for the Company and its controlled entities (the Group), for the financial period ended 30 September 2017.

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

Our Board of Directors

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

Nino **Ficca** - *Managing Director*

Adam **Newman**

Alistair **Parker**

Interim review of operations

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

$M	30 September 2017	30 September 2016	Movement	%
Revenue	707.5	674.3	33.2	4.9
EBITDA[1]	433.3	375.9	57.4	15.3
Net profit after tax	123.5	87.9	35.6	40.5

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

The period on period improvement in our financial performance has arisen from the $33.2 million increase in revenues. Regulated revenue increased in both electricity and gas distribution due to price, higher volumes due to a colder winter and customer growth.

Operating expenses decreased by $24.2 million or 8.1 per cent compared to the previous corresponding period. There were a number of items that contributed to this result, including the prior period containing an $8.9 million write off of an IT project and $4.5 million higher service level payments due to significant storm activity. In the current period operating expenses decreased primarily through labour reductions driven by our cost efficiency program.

Net finance costs have decreased by $4.4 million or 4.5 per cent compared to the prior period as a result of lower interest rates partially offset by reduced hedge accounting gains.

Depreciation and amortisation has increased $10.3 million or 6.8 per cent due to completion of the metering program, resulting in short life software and communications assets placed into service.

Income tax expense has increased by $15.9 million as result of higher profit before tax, with the effective tax rate of 30 per cent in both periods.

Interim review of operations (continued)

Electricity distribution business

	30 September 2017	30 September 2016	Movement	%
Segment revenue ($M)	473.5	457.3	16.2	3.5
Segment result - EBITDA ($M)	292.4	253.3	39.1	15.4
Volume (GWh)	4,021	4,007	14	0.3
Connections	712,375	698,648	13,727	2.0
Capital expenditure ($M)	196.7	220.8	(24.1)	(10.9)

Increased revenues are due to the CY2017 revenue cap increase of 2.3%. In addition, volume outperformance also contributed $6.0 million additional revenue.

Operating expenses decreased $22.9 million or 11.2 per cent. The prior period included an $8.1 million write-off of an IT project and an additional $4.5 million of service level payments arising from higher storm activities. The remaining decrease reflects the implementation of various cost efficiency programs.

Capital expenditure decreased due to the metering remediation program ($61.5 million) completing in March 2017. Offsetting this is an $18.6 million increase in Rapid Earth Fault Current Limiter (REFCL) and an increase of $8.4 million in Power of Choice expenditures.

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 Australian Energy Regulator (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 Electricity Distribution Price Review (EDPR) determination. This difference is trued-up as an adjustment to tariffs in future periods. As at 30 September 2017 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 a future negative revenue adjustment of $52.7 million ($2018), smoothed over calendar years 2018 to 2020. The FY2018 impact is expected to be approximately $6.7 million.
- Based on CY2015 and CY2016 performance, we will recognise an additional $4.5 million of revenue ($5.0 million in CY2017, $0.5 million reduction in CY 2018) under the Service Target Performance Incentive Scheme (STPIS).

Gas distribution business

	30 September 2017	30 September 2016	Movement	%
Segment revenue ($M)	167.6	149.1	18.5	12.4
Segment result - EBITDA ($M)	137.6	118.3	19.3	16.3
Volume (PJ)	44.2	41.5	2.7	6.5
Connections	684,735	668,899	15,836	2.4
Capital expenditure ($M)	44.6	39.1	5.5	14.1

Regulated gas distribution revenues increased $10.9 million due to a combination of higher tariffs (average 5.0 per cent increase on 1 January 2017) and higher volumes due to colder weather and connections growth from new housing estates in the Western suburbs of Melbourne. In addition, customer contributions increased $7.6 million, primarily due to the completion of the Avoca rollout under the Victorian Government's Energy for the Regions program.

Interim review of operations (continued)

Gas distribution business (continued)

Capital expenditure was low in the prior period due to delays in obtaining council approvals for the mains renewal program, with the current period spend reflecting a return to more normal levels of work on the program.

Commercial Energy Services

	30 September 2017	30 September 2016	Movement	%
Segment revenue ($M)	67.4	67.9	(0.5)	(0.7)
Segment result - EBITDA ($M)	3.3	4.3	(1.0)	(23.3)
EBITDA margin (%)	4.9	6.3	(1.4)	(22.2)
Capital expenditure ($M)	4.8	4.9	(0.1)	(2.0)

The commercial energy services business consists of energy services and asset intelligence services. The customers of this business primarily operate in the utility and essential infrastructure sectors of electricity, water, gas and rail.

EBITDA decreased by $1.0 million primarily due to completion of certain contracts in field services and contestable metering.

Financial position

Total equity of the Group was $1,935.9 million as at 30 September 2017, an increase of $116.7 million compared to 31 March 2017. The net profit recognised for the six month period has been partially offset by net movements in other comprehensive income.

Our current liabilities exceed current assets by $1,201.2 million at 30 September 2017 primarily due to $553.5 million of current borrowings (face value) and payables to other companies in the AusNet Services Group. 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 2017 we have available a total of $474.0 million of undrawn but committed bank debt facilities and $12.2 million of cash. The next maturity is a $537.5 million Sterling bond due in June 2018 (face value).

Capital management

We manage our capital structure to maximise the return to shareholders, while 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 have maintained our targeted credit metrics to support an 'A' range credit rating.

Debt raising

The Company is utilised as AusNet Services' common funding vehicle (CFV). Companies within AusNet Services have 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.

Dividends

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

Directors' Report

Material risks and uncertainties

We are committed to understanding and effectively managing risk to provide greater certainty and confidence for our shareholders, employees, customers, suppliers and communities in which we operate. We maintain oversight of our material business risks (financial and non-financial) at an enterprise-wide level and report regularly 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 2017 annual report, we detailed the following material risks which may impact the execution and achievement of our business strategy and financial prospects:

- Industry and regulatory risks;
- Network risks;
- Funding and market risks; and
- Information and communication technology risks.

While these remain relevant risks and uncertainties, we provide the following updates in relation to the industry and regulatory risks since the 31 March 2017 annual report (no material changes have occurred during the period in relation to the other three listed risks):

Industry and Regulatory risks update

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.

In March 2017 the Federal Government directed the Australian Competition and Consumer Commission (ACCC) to hold an inquiry into the supply of retail electricity and the competitiveness of retail electricity prices. In response, the ACCC has published a preliminary report highlighting significant concerns it has about the operation of the National Electricity Market (NEM). More recently, the Federal Government announced its new National Electricity Guarantee scheme which aims to deliver more affordable and reliable electricity.

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.

Rapid Earth Fault Current Limiter (REFCL) update

On 21 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.

The reduction in approved expenditure is due to the AER determination that the costs proposed for works associated with HV customers exceeded the prudent and efficient costs necessary to implement these projects. The decision on works for HV customers applies only to the tranche one work program. It is not a precedent for the work proposed in tranches two and three. Funding for tranches two and three of the REFCL program will be subject to future contingent applications.

In light of this decision, the AER also approved an amendment to the revenue allowance for compliance with the new bushfire mitigation requirements. The determination is that AusNet Services can recover the efficient cost of the tranche one REFCL installation project in charges during the remainder of the current EDPR. As a result, the revenue over the current regulatory period (through the end of CY2020) will increase by $29 million with the remainder in subsequent periods.

As detailed in the March 2017 financial report, this program presents several risks, including technology risk, network risk, vendor risk and funding risk.

Material risks and uncertainties (continued)

Industry and Regulatory risks update (continued)

Limited merits review

In August 2017 the Federal Government introduced a bill to abolish the right to seek limited merits review of regulatory decisions under the national energy regulation regime. This bill was passed by both houses of Parliament in October 2017.

The passing of this bill means that network service providers will be unable to have a final regulatory decision from the AER reviewed by the Australian Competition Tribunal. This will first apply to us for the final 2018-2022 Gas Access Arrangements Review (GAAR) which is due in November 2017. However, AusNet Services has accepted the July 2017 AER draft decision.

Directors' Report

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 affecting us in Victoria are those which regulate noise emissions, greenhouse gas emissions, the discharge of emissions to land, air and water, the management of oils, chemicals and dangerous goods, the disposal of wastes, and those which govern the assessment of land use including the approval of developments. The Directors are not aware of any breaches of legislation during the period which are material in nature.

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007* (Cth), corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. We meet these thresholds and have lodged our current year's NGER reporting with the Clean Energy Regulator for the period from 1 July 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 period under review.

Matters subsequent to the end of the financial period

The Directors are not aware of any circumstances that have arisen since 30 September 2017 that have significantly affected, or may significantly affect, the operations, and the results of those operations, or the state of affairs of the Group in the financial period subsequent to 30 September 2017.

Rounding of amounts

The Group is a company of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Instrument to the nearest hundred thousand dollars unless otherwise stated.

This report is made in accordance with a resolution of the Directors.

Nino Ficca
Managing Director

Melbourne
14 November 2017

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of AusNet Services Holdings Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the interim review of AusNet Services Holdings Pty Ltd for the interim period ended 30 September 2017 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

Paul McDonald
Partner

Melbourne

14 November 2017

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated interim income statement
For the period ended 30 September 2017

	Notes	30 September 2017 $M	30 September 2016 $M
Revenue	B.1	**707.5**	674.3
Use of system and associated charges		**(54.5)**	(58.3)
Employee benefit expenses		**(77.7)**	(95.1)
External maintenance and contractors services		**(46.5)**	(45.1)
Materials		**(17.3)**	(19.3)
Information technology and communication costs		**(22.1)**	(20.2)
Operating lease rental expenses		**(6.4)**	(5.6)
Administrative expenses		**(11.2)**	(9.8)
Disposal of property plant and equipment		**(4.0)**	(0.1)
Other costs		**(34.5)**	(44.9)
Total expenses excluding depreciation, amortisation, interest and tax		**(274.2)**	(298.4)
Earnings before interest, tax, depreciation and amortisation		**433.3**	375.9
Depreciation and amortisation		**(162.5)**	(152.2)
Profit from operating activities		**270.8**	223.7
Finance income	D.3	**54.4**	54.3
Finance costs	D.3	**(148.4)**	(152.7)
Net finance costs		**(94.0)**	(98.4)
Profit before income tax		**176.8**	125.3
Income tax expense		**(53.3)**	(37.4)
Profit for the period		**123.5**	87.9

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 2017

	30 September 2017 $M	30 September 2016 $M
Profit for the period	**123.5**	87.9
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	**(0.8)**	(0.6)
Income tax on movement in defined benefit fund	**0.2**	0.2
	(0.6)	(0.4)
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	**(11.7)**	(131.7)
Income tax on movement in hedge reserve	**5.1**	42.5
	(6.6)	(89.2)
Other comprehensive income for the period, net of income tax	**(7.2)**	(89.6)
Total comprehensive income for the period	**116.3**	(1.7)

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 2017

	Notes	30 September 2017 $M	31 March 2017 $M
ASSETS			
Current assets			
Cash and cash equivalents		**12.2**	327.0
Receivables		**215.5**	263.2
Inventories		**40.3**	39.3
Derivative financial instruments		**0.5**	5.7
Other assets		**18.5**	18.5
Total current assets		**287.0**	653.7
Non-current assets			
Receivables		**2,896.7**	2,719.0
Property, plant and equipment	C.1	**5,989.8**	5,897.3
Intangible assets	C.2	**479.8**	492.6
Derivative financial instruments		**415.3**	306.0
Other assets		**18.9**	21.0
Total non-current assets		**9,800.5**	9,435.9
Total assets		**10,087.5**	10,089.6
LIABILITIES			
Current liabilities			
Payables and other liabilities		**870.4**	890.1
Provisions		**59.0**	68.6
Borrowings	D.1	**458.3**	398.4
Derivative financial instruments		**100.5**	10.3
Total current liabilities		**1,488.2**	1,367.4
Non-current liabilities			
Deferred revenue		**74.1**	67.0
Provisions		**38.5**	37.6
Borrowings	D.1	**6,132.5**	6,266.9
Derivative financial instruments		**164.3**	303.1
Deferred tax liabilities		**254.0**	228.4
Total non-current liabilities		**6,663.4**	6,903.0
Total liabilities		**8,151.6**	8,270.4
Net assets		**1,935.9**	1,819.2
EQUITY			
Contributed equity	D.4	**1,063.3**	1,063.3
Reserves		**(22.5)**	(16.3)
Retained profits		**895.1**	772.2
Total equity		**1,935.9**	1,819.2

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 2017

	Contributed equity $M	Hedge reserve (i) $M	Share based payment reserve (ii) $M	Retained profits $M	Total equity $M
30 September 2017					
Balance as at 1 April 2017	1,063.3	(17.8)	1.5	772.2	1,819.2
Total comprehensive income for the period					
Profit for the period	-	-	-	123.5	123.5
Other comprehensive income	-	(6.6)	-	(0.6)	(7.2)
Total comprehensive income for the period	**-**	**(6.6)**	**-**	**122.9**	**116.3**
Transactions with owners, recorded directly in equity					
Share based payment reserve	-	-	0.4	-	0.4
Total transactions with owners	**-**	**-**	**0.4**	**-**	**0.4**
Balance as at 30 September 2017	**1,063.3**	**(24.4)**	**1.9**	**895.1**	**1,935.9**
30 September 2016					
Balance as at 1 April 2016	1,063.9	(80.8)	0.3	1,240.7	2,224.1
Total comprehensive income for the period					
Profit for the period	-	-	-	87.9	87.9
Other comprehensive income	-	(89.2)	-	(0.4)	(89.6)
Total comprehensive income for the period	**-**	**(89.2)**	**-**	**87.5**	**(1.7)**
Transactions with owners, recorded directly in equity					
Share based payment reserve	-	-	0.3	-	0.3
Total transactions with owners	**-**	**-**	**0.3**	**-**	**0.3**
Balance as at 30 September 2016	**1,063.9**	**(170.0)**	**0.6**	**1,328.2**	**2,222.7**

(i) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset.

(ii) The share based payment reserve represents the tax-effected fair value of the performance rights granted under the 2015-2017 tranches of the long-term incentive plan. This takes into account estimated vesting and service conditions as at 30 September 2017.

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 2017

	30 September 2017 $M	30 September 2016 $M
Cash flows from operating activities		
Profit for the period	**123.5**	87.9
Add back interest, tax, depreciation	**309.8**	288.0
Other non-cash items	**(1.2)**	5.4
Working capital movement	**(72.3)**	(111.0)
Net interest paid	**(152.5)**	(154.7)
Net cash inflow from operating activities	**207.3**	115.6
Cash flows from investing activities		
Payments for property, plant and equipment (i)	**(243.5)**	(307.5)
Proceeds from sale of property, plant and equipment	**0.3**	3.5
Net cash outflow from investing activities	**(243.2)**	(304.0)
Cash flows from financing activities		
Repayments of loans with related parties	**(41.9)**	(147.7)
Proceeds from borrowings	**583.5**	414.5
Repayments of borrowings	**(820.5)**	(486.5)
Net cash outflow from financing activities	**(278.9)**	(219.7)
Net decrease in cash held	**(314.8)**	(408.1)
Cash and cash equivalents at beginning of the period	**327.0**	440.2
Cash and cash equivalents at end of the period	**12.2**	32.1

(i) Net finance costs include a credit of $3.3 million (2016: $5.0 million) for capitalised finance charges which is included in payments for property, plant and equipment.

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

Condensed notes to the consolidated interim financial statements

30 September 2017

Contents

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 2017, represents the consolidated financial statements of AusNet Services Holdings Pty Ltd (the Company) and its subsidiaries. The consolidated group is collectively referred to as the Group. The ultimate Australian parent of the Company is AusNet Services Ltd, which is part of a consolidated group trading as AusNet Services (also referred to as us, our, we).

The financial report has been prepared:

- in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth);
- on a going concern basis, which contemplates the continuity of normal trading operations. The Company's current liabilities exceed current assets by $1,201.2 million at 30 September 2017 primarily due to $553.5 million of current borrowings (face value) and payables to other companies in the AusNet Services Group. 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 2017 we have available a total of $474.0 million of undrawn but committed bank debt facilities and $12.2 million of cash. The next maturity is a $537.5 million Sterling bond due in June 2018 (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 2017 and any public announcements made by AusNet Services Holdings Pty Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act*.

This general purpose interim financial report is presented in Australian dollars.

The interim financial statements were approved by the Board of Directors on 14 November 2017.

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 2017. There have been no new accounting standards relevant to the Group adopted during the period.

For the period ended 30 September 2016, 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 2017. Some of the critical judgements and estimates used by management in applying the Group's accounting policies for the period ended 30 September 2017 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 2017.

Section B Operating our business

This section highlights the performance of the Group for the period, including results by operating segment and seasonality of operations.

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) Commercial Energy Services

The commercial energy services business consists of energy services and asset intelligence services. The customers of this business primarily operate in the utility, renewables and essential infrastructure sectors of electricity, water, gas and rail. The commercial energy services business was previously known as Select Solutions.

Note B.1 Segment information (continued)

(b) Reportable segment financial information

	Electricity distribution	Gas distribution	Commercial Energy Services	Inter-segment eliminations	Consolidated
30 September 2017	**$M**	**$M**	**$M**	**$M**	**$M**
Regulated revenue	452.9	158.4	-	-	611.3
Customer contributions	16.4	9.0	-	-	25.4
Service revenue	-	-	66.4	-	66.4
Other revenue	4.2	0.2	1.0	(1.0)	4.4
Total segment revenue	**473.5**	**167.6**	**67.4**	**(1.0)**	**707.5**
Segment expense before depreciation and amortisation	(181.1)	(30.0)	(64.1)	1.0	(274.2)
Segment result - EBITDA (i)	**292.4**	**137.6**	**3.3**	**-**	**433.3**
Depreciation and amortisation	(136.2)	(22.4)	(3.9)	-	(162.5)
Net finance costs					(94.0)
Income tax expense					(53.3)
Profit for the period					**123.5**
30 September 2016					
Regulated revenue	437.6	147.5	-	-	585.1
Customer contributions	11.2	1.4	-	-	12.6
Service revenue	-	-	59.0	-	59.0
Other revenue	8.5	0.2	8.9	-	17.6
Total segment revenue	**457.3**	**149.1**	**67.9**	**-**	**674.3**
Segment expense before depreciation and amortisation	(204.0)	(30.8)	(63.6)	-	(298.4)
Segment result - EBITDA (i)	**253.3**	**118.3**	**4.3**	**-**	**375.9**
Depreciation and amortisation	(125.5)	(24.2)	(2.5)	-	(152.2)
Net finance costs					(98.4)
Income tax expense					(37.4)
Profit for the period					**87.9**

(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.

Note B.2 Seasonality of operations

(a) Electricity distribution

Electricity distribution volumes display some seasonal variation with increased volumes in winter due to higher demand for heating and increased volumes in summer as a result of higher demand for air conditioning. However, the impact of seasonal volume variation on electricity distribution revenue is limited due to the tariff structure, which includes a fixed component and a contract demand capacity component. The high proportion of process related consumption of commercial and industrial customers also limits seasonal variation in electricity distribution revenue. 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 in 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) Commercial Energy Services

Commercial Energy Services revenue is not seasonal and is earned as the services are rendered.

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	Buildings	Easements	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital work in progress	Total
	$M	$M	$M	$M	$M	$M	$M	$M
30 September 2017								
Cost	24.3	71.6	1.2	5,919.6	2,080.7	533.7	221.0	8,852.1
Accumulated depreciation	-	(8.6)	-	(1,900.0)	(572.0)	(381.7)	-	(2,862.3)
Carrying amount as at 30 September 2017	**24.3**	**63.0**	**1.2**	**4,019.6**	**1,508.7**	**152.0**	**221.0**	**5,989.8**
31 March 2017								
Cost	24.3	71.6	1.2	5,766.8	2,056.1	529.1	177.3	8,626.4
Accumulated depreciation	-	(8.0)	-	(1,819.7)	(552.1)	(349.3)	-	(2,729.1)
Carrying amount as at 31 March 2017	**24.3**	**63.6**	**1.2**	**3,947.1**	**1,504.0**	**179.8**	**177.3**	**5,897.3**

Note C.2 Intangible assets

	Distribution licences	Goodwill	Software	Other intangible assets	Total
	$M	$M	$M	$M	$M
30 September 2017					
Cost	354.5	12.1	410.3	4.0	780.9
Accumulated amortisation	-	-	(297.7)	(3.4)	(301.1)
Carrying amount as at 30 September 2017	**354.5**	**12.1**	**112.6**	**0.6**	**479.8**
31 March 2017					
Cost	354.5	12.1	402.4	4.0	773.0
Accumulated amortisation	-	-	(277.1)	(3.3)	(280.4)
Carrying amount as at 31 March 2017	**354.5**	**12.1**	**125.3**	**0.7**	**492.6**

Note C.3 Capital expenditure

	30 September 2017	30 September 2016
	$M	$M
Electricity distribution	**196.7**	220.8
Gas distribution	**44.6**	39.1
Commercial energy services	**4.8**	4.9
Total capital expenditure	**246.1**	264.8

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 Borrowings

	Maturity date	30 September 2017 $M	31 March 2017 $M
Current borrowings			
Commercial paper	Dec 2017	**5.0**	-
Bank debt facilities	Oct 2017	**11.0**	93.0
Pound sterling (GBP) senior notes (i)	Jun 2018	**442.3**	-
Domestic medium term notes		**-**	305.4
Total current borrowings		**458.3**	398.4
Non-current borrowings			
Bank Debt Facilities	2019	**139.3**	-
Swiss franc (CHF) senior notes (i)	2019	**367.9**	368.4
Domestic medium term notes	2020-2027	**1,513.5**	1,512.0
Pound sterling (GBP) senior notes (i)		**-**	438.4
Floating rate notes	2020	**99.9**	99.8
Euro (EUR) senior notes (i)	2020-2027	**2,195.6**	2,020.3
Hong Kong dollar (HKD) senior notes (i)	2020-2028	**685.6**	702.0
Japanese yen (JPY) senior notes (i)	2024	**58.6**	62.3
US dollar (USD) senior notes (i)	2026	**99.8**	103.3
Norwegian kroner (NOK) senior notes (i)	2027-2029	**316.5**	298.4
US dollar (USD) hybrid securities (ii)	2076	**465.4**	473.8
Singapore dollar (SGD) hybrid securities (ii)	2076	**190.4**	188.2
Total non-current borrowings		**6,132.5**	6,266.9
Total borrowings (iii)		**6,590.8**	6,665.3

(i) The carrying value of foreign currency borrowings are translated at spot rate as at balance date. The foreign currency risk associated with these borrowings is hedged through the use of cross-currency swaps.

(ii) The first call date for hybrid securities is September 2021.

(iii) The fair value of total borrowings as at 30 September 2017 is $7,154.2 million (31 March 2017: $7,297.8 million). This fair value measurement uses significant market observable data, and therefore is a level two measurement within the fair value hierarchy as per AASB 13 *Fair Value Measurement*. The valuation techniques applied are consistent with those applied in the consolidated financial report as at and for the year ended 31 March 2017.

The Group had $474.0 million of undrawn but committed bank debt facilities and $12.2 million cash on deposit as at 30 September 2017. AusNet Services has an A- credit rating from Standard and Poor's and an A3 credit rating from Moody's Investor Services.

Note D.2 Financial risk management

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

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

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

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

The Group's financial risk management objectives and policies are consistent with those disclosed in the Group's consolidated financial report as at and for the year ended 31 March 2017.

(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 2017.

Note D.3 Net finance costs

	30 September 2017 $M	30 September 2016 $M
Finance income		
Interest income	**1.9**	4.3
Interest income - related parties	**52.5**	50.0
Total finance income	**54.4**	54.3
Finance costs		
Interest expense	**153.9**	163.7
Other finance charges - cash	**1.5**	1.6
Other finance charges - non-cash	**1.2**	2.6
Gain on accounting for hedge relationships	**(5.6)**	(12.8)
Unwind of discount on provisions	**1.1**	2.5
Defined benefit net interest (income)/expense	**(0.4)**	0.1
Capitalised finance charges	**(3.3)**	(5.0)
Total finance costs	**148.4**	152.7
Net finance costs	**94.0**	98.4

Note D.4 Equity

		30 September 2017 $M	31 March 2017 $M
Contributed equity			
Ordinary share capital	(a)	**1,063.3**	1,063.3
Total contributed equity		**1,063.3**	1,063.3

(a) Movements in ordinary share capital

Date	Details	Number of shares	$M
1 April 2017	Opening balance	1,063,361,942	1,063.3
30 September 2017	**Closing balance**	**1,063,361,942**	**1,063.3**
1 April 2016	Opening balance	1,063,361,942	1,063.9
30 September 2016	**Closing balance**	**1,063,361,942**	**1,063.9**

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Section E Other disclosures

This section includes other information to assist in understanding the financial performance and position of the Group, or items required to be disclosed in order to comply with accounting standards and other pronouncements.

Note E.1 Contingent liabilities and contingent assets

We are not aware of any contingent liabilities or assets as at 30 September 2017.

Note E.2 Events occurring after the balance sheet date

There has been no matter or circumstance that has arisen since 30 September 2017 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 2017 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in the financial period subsequent to 30 September 2017, of the Group.

Directors' declaration

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

(a) the interim financial statements and notes set out on pages 10 to 25, are in accordance with the *Corporations Act 2001*, including:

(i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations* 2001; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 September 2017 and its performance for the six month period ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

Nino Ficca
Managing Director

Melbourne
14 November 2017

Independent Auditor's Review Report

To the members of AusNet Services Holdings Pty Ltd

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of AusNet Services Holdings Pty 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 Holdings Pty 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 2017 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 interim statement of financial position as at 30 September 2017;
- Consolidated interim income statement, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the Interim Period ended on that date;
- Notes comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises AusNet Services Holdings Pty Ltd (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The ***Interim Period*** is the 6 months ended on 30 September 2017.

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*; and
- 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.

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KPMG

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 2017 and its performance for the interim period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of AusNet Services Holdings Pty Ltd, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Period 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

KPMG

Paul J McDonald

Paul McDonald

Partner

Melbourne

14 November 2017