AusNet Services Holdings Pty Ltd
ACN 086 006 859

Interim Financial Report

For the financial period ended 30 September 2019

AusNet Services Holdings Pty Ltd

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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

A description of the nature of AusNet Services Holdings Pty Ltd's operations and its principal activities is included in the Directors' report.

The interim financial report was authorised for issue by the Directors on 12 November 2019.

Directors' report

Introduction

The Directors of AusNet Services Holdings Pty Ltd (the Company) present their report on the general purpose interim financial report of the Company and consolidated entities (the Group) for the financial period ended 30 September 2019.

The immediate parent of the Company is AusNet Services (Distribution) Pty Ltd. 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 the AusNet Services Group, us, our, and we).

What we do

We are a diversified energy network business, owning and operating electricity and gas distribution 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 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; and
- Mondo Power 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**

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 until 31 October 2019, Director thereafter*

Tony **Narvaez** – *Managing Director (appointed 1 November 2019)*

Adam **Newman** *(resigned 20 September 2019)*

Alistair **Parker**

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	**666.8**	643.4	23.4	3.6
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**402.3**	400.1	2.2	0.5
Net profit after tax	**79.3**	84.2	(4.9)	(5.8)
Capital expenditure	**287.9**	279.9	8.0	2.9

Financial performance for the half year was consistent with expectations, noting that there are a number of one-off and pass-through items that have impacted the results. Revenues are 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 (previously Downer provided these services for approximately 70 per cent of the network). This resulted in the transfer of 240 employees to Downer in early September 2019. The one-off transition and mobilisation costs have been largely offset 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. While the transition is now complete, some further transition costs will be incurred in the second half and we will also collect proceeds from inventory and motor vehicle transfers to Downer.

The $23.4 million revenue increase reflects the new impact of the following:

- $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;
- $23.0 million increase in regulated electricity distribution due to volume outperformance ($4.1 million), higher incentive revenues ($5.4 million) and regulated price increases; partly offset by
- $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 the materials cost of the inventory sale described above) increased by $10.1 million. The regulated business recorded an $8.6 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, partially offset by a reduction in employee benefit expenses.

Capital expenditure increased by $8.0 million due to expenditure in the electricity distribution business and higher levels of customer connections.

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 $23.0 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.

Directors' report (continued)

Interim review of operations (continued)

Electricity distribution business (continued)

<u>*Future revenue impacts*</u>

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).

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 ($M)	**38.9**	44.4	(5.5)	(12.4)
Segment result – EBITDA ($M)	**(6.6)**	0.8	(7.4)	(925.0)
Capital expenditure ($M)	**8.6**	7.0	1.6	22.9

Revenues decreased $5.5 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.

Capital expenditure in the current period is higher than the previous period predominantly due to Deakin University microgrid energy system spend in the current period.

Directors' report (continued)

Interim review of operations (continued)

Financial position

Total equity of the Group was $1,092.5 million as at 30 September 2019, a decrease of $349.5 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 $1,324.2 million at 30 September 2019. This includes $1,360.8 million of current borrowings with upcoming debt maturities (at face value) of $400 million of AUD notes in February and March 2020, $100 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 $180.6 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

The Company is utilised as AusNet Services’ common funding vehicle (CFV). 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 following dividends were approved to shareholders during the financial period:

	Cents per share	Total dividend $M
Total dividend	14.4	188.2

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

<u>*Rapid Earth Fault Current Limiter (REFCL) update*</u>

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 practices. 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) Regulation. 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.

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.

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 2019 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 period between 30 September 2019 and the date of issue of this financial report.

Rounding of amounts

AusNet Services Holdings Pty Ltd 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.

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 Holdings Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the review of AusNet Services Holdings Pty 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

	Notes	30 September 2019 $M	30 September 2018 $M
Revenue	B.1	**666.8**	643.4
Use of system and associated charges		**(58.8)**	(53.2)
Employee benefit expenses		**(62.9)**	(67.6)
External maintenance and contractors services		**(58.1)**	(48.5)
Materials		**(23.2)**	(13.2)
Information technology and communication costs		**(19.9)**	(19.0)
Operating lease rental expenses		**(0.3)**	(3.4)
Administrative expenses		**(12.6)**	(11.6)
Disposal of property plant and equipment		**(9.0)**	(10.4)
Other costs		**(19.7)**	(16.4)
Total expenses excluding depreciation, amortisation, interest and tax		**(264.5)**	(243.3)
Earnings before interest, tax, depreciation and amortisation		**402.3**	400.1
Depreciation and amortisation		**(170.4)**	(170.0)
Profit from operating activities		**231.9**	230.1
Finance income	D.2	**53.6**	58.2
Finance costs	D.2	**(172.2)**	(167.7)
Net finance costs		**(118.6)**	(109.5)
Profit before income tax		**113.3**	120.6
Income tax expense		**(34.0)**	(36.4)
Profit for the period		**79.3**	84.2

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	**79.3**	84.2
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	**(22.3)**	3.2
Income tax on movement in defined benefit fund	**6.7**	(1.0)
	(15.6)	2.2
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	**(321.2)**	(3.7)
Income tax on movement in hedge reserve	**96.4**	2.4
	(224.8)	(1.3)
Other comprehensive income for the period, net of income tax	**(240.4)**	0.9
Total comprehensive income for the period	**(161.1)**	85.1

The above consolidated interim income statement 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		**180.6**	337.3
Receivables		**222.8**	260.9
Inventories		**39.5**	46.6
Derivative financial instruments		**145.2**	139.2
Other assets		**17.5**	21.9
Total current assets		**605.6**	805.9
Non-current assets			
Receivables		**2,550.6**	2,479.2
Property, plant and equipment	C.1	**6,488.7**	6,331.0
Intangible assets	C.2	**511.5**	509.8
Derivative financial instruments		**671.9**	473.0
Other assets		**12.1**	27.6
Total non-current assets		**10,234.8**	9,820.6
Total assets		**10,840.4**	10,626.5
LIABILITIES			
Current liabilities			
Payables and other liabilities		**523.1**	487.8
Provisions		**43.4**	61.2
Borrowings	D.1	**1,360.8**	979.7
Derivative financial instruments		**2.5**	2.7
Total current liabilities		**1,929.8**	1,531.4
Non-current liabilities			
Deferred revenue		**107.6**	98.3
Lease liabilities		**44.4**	-
Provisions		**56.4**	54.3
Borrowings	D.1	**6,897.7**	6,966.7
Derivative financial instruments		**625.8**	347.2
Deferred tax liabilities		**86.2**	186.6
Total non-current liabilities		**7,818.1**	7,653.1
Total liabilities		**9,747.9**	9,184.5
Net assets		**1,092.5**	1,442.0
EQUITY			
Contributed equity	D.3	**1,308.8**	1,308.3
Reserves		**(539.9)**	(314.4)
Retained profits		**323.6**	448.1
Total equity		**1,092.5**	1,442.0

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 2019

	Notes	Contributed equity $M	Hedge reserve (i) $M	Share based payment reserve $M	Retained profits $M	Total equity $M
30 September 2019						
Balance as at 1 April 2019		1,308.3	(315.1)	0.7	448.1	1,442.0
Total comprehensive income for the period						
Profit for the period		-	-	-	79.3	79.3
Other comprehensive income		-	(224.8)	-	(15.6)	(240.4)
Total comprehensive income for the period		**-**	**(224.8)**	**-**	**63.7**	**(161.1)**
Transactions with owners, recorded directly in equity						
Dividends	D.4	-	-	-	(188.2)	(188.2)
Share based payment reserve	D.3	0.5	-	(0.7)	-	(0.2)
Total transactions with owners		**0.5**	**-**	**(0.7)**	**(188.2)**	**(188.4)**
Balance as at 30 September 2019		**1,308.8**	**(539.9)**	**-**	**323.6**	**1,092.5**
30 September 2018						
Balance as at 1 April 2018		1,064.9	(117.0)	0.7	898.5	1,847.1
Total comprehensive income for the period						
Profit for the period		-	-	-	84.2	84.2
Other comprehensive income		-	(1.3)	-	2.2	0.9
Total comprehensive income for the period		**-**	**(1.3)**	**-**	**86.4**	**85.1**
Transactions with owners, recorded directly in equity						
Dividends		-	-	-	(341.0)	(341.0)
Share based payment reserve		0.5	-	-	-	0.5
Total transactions with owners		**0.5**	**-**	**-**	**(341.0)**	**(340.5)**
Balance as at 30 September 2018		**1,065.4**	**(118.3)**	**0.7**	**643.9**	**1,591.7**

(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.

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	**79.3**	84.2
Add back interest, tax, depreciation	**323.0**	315.9
Non-cash gifted assets revenue	**(23.8)**	(19.9)
Other non-cash items	**(73.5)**	8.9
Working capital movement	**(81.1)**	(97.6)
Net interest paid	**(172.3)**	(154.6)
Net cash inflow from operating activities	**51.6**	136.9
Cash flows from investing activities		
Payments for property, plant and equipment (i)	**(305.9)**	(268.1)
Proceeds from sale of property, plant and equipment	**2.8**	0.4
Net cash outflow from investing activities	**(303.1)**	(267.7)
Cash flows from financing activities		
Repayments of loans with related parties	**37.7**	(1.1)
Payments for lease liabilities	**(2.7)**	-
Proceeds from borrowings	**378.0**	225.3
Repayments of borrowings	**(318.2)**	(537.5)
Net cash inflow/(outflow) from financing activities	**94.8**	(313.3)
Net decrease in cash held	**(156.7)**	(444.1)
Cash and cash equivalents at beginning of the period	**337.3**	602.8
Cash and cash equivalents at end of the period	**180.6**	158.7

(i) Net finance costs include a credit of $4.5 million (2018: $5.1 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 2019

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 2019, represents the consolidated financial statements of the Group, which comprises AusNet Services Holdings Pty Ltd (the Company) and its subsidiaries. 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 Group's current liabilities exceed current assets by $1,324.2 million at 30 September 2019 primarily due to $1,360.8 million of current borrowings, offset by intercompany receivables. 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 $180.6 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 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 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, 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.

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. Reconciliation of FY2019 operating lease commitments to AASB 16 lease liability:

	1 April 2019 $M
Operating lease commitments at 31 March 2019	76.1
Discounted using the incremental borrowing rate at 1 April 2019 (i)	55.8
Lease liabilities recognised at 1 April 2019	**55.8**

(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 5.23%.

Section A Overview (continued)

(c) Change in accounting policies – *AASB 16 Leases*

iii. Impacts on the 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 $M	Reported $M
ASSETS			
Non-current assets			
Property, plant and equipment	6,441.1	47.6[i]	6,488.7
Total non-current assets	**10,187.2**	**47.6**	**10,234.8**
Total assets	**10,792.8**	**47.6**	**10,840.4**
LIABILITIES			
Current liabilities			
Payables and other liabilities	518.6	4.5[ii]	523.1
Total current liabilities	**1,925.3**	**4.5**	**1,929.8**
Non-current liabilities			
Lease liabilities	-	44.4[ii]	44.4
Deferred tax liabilities	86.6	(0.4)	86.2
Total non-current liabilities	**7,774.1**	**44.0**	**7,818.1**
Total liabilities	**9,699.4**	**48.5**	**9,747.9**
Net assets	**1,093.4**	**(0.9)**	**1,092.5**
Equity			
Retained profits	324.5	(0.9)	323.6
Total equity	**1,093.4**	**(0.9)**	**1,092.5**

(i) Includes transition adjustment of $55.8 million less $4.0 million of depreciation, $3.0 million of adjusted lease end dates and $1.2 million of leases novated as part of the outsourcing initiative during the period.

(ii) Includes transition adjustment of $55.8 million ($4.5 million current and $51.3 million non-current), less $2.7 million of repayments, $3.0 million of adjusted lease end dates and $1.2 million of leases novated as part of the outsourcing initiative.

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 $M	Reported $M
Operating lease rental expense	(5.1)	4.8	(0.3)
Earnings before interest, tax, depreciation and amortisation	**397.5**	**4.8**	**402.3**
Depreciation and amortisation	(166.4)	(4.0)	(170.4)
Net finance costs	(116.5)	(2.1)	(118.6)
Profit before income tax	**114.6**	**(1.3)**	**113.3**
Income tax expense	(34.4)	0.4	(34.0)
Profit for the period	**80.2**	**(0.9)**	**79.3**

Consolidated statement of cash flows for the period ended 30 September 2019:

	Before adoption of AASB 16 $M	Impact of AASB 16 $M	Reported $M
Cash flows from operating activities			
Profit for the period	80.2	(0.9)	79.3
Add back interest, tax, depreciation	317.3	5.7	323.0
Net interest received/(paid)	(170.2)	(2.1)	(172.3)
Net cash inflow from operating activities	**48.9**	**2.7**	**51.6**
Cash flows from financing activities			
Payments for lease liabilities	-	(2.7)	(2.7)
Net cash inflow from financing activities	**97.5**	**(2.7)**	**94.8**

Section B Operating our business

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

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.

Note B.1 Segment information (continued)

(a) Description of reportable segments (continued)

(iii) Mondo

The Mondo business provides specialised technology solutions to enable energy data and asset intelligence services. 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.

The customers of this business primarily operate in the utility, renewables and essential infrastructure sectors of electricity, water, gas and rail.

Note B.1 Segment information (continued)

(b) Reportable segment financial information

30 September 2019	Electricity distribution $M	Gas distribution $M	Mondo $M	Inter-segment eliminations $M	Consolidated $M
Regulated revenue	431.9	139.0	-	-	570.9
Customer contributions	37.1	3.4	-	-	40.5
Service revenue	-	-	31.5	-	31.5
Other revenue	15.8	0.7	7.4	-	23.9
Total segment revenue	**484.8**	**143.1**	**38.9**	**-**	**666.8**
Segment operating expense	(186.9)	(32.1)	(45.5)	-	(264.5)
Segment result - EBITDA (i)	**297.9**	**111.0**	**(6.6)**	**-**	**402.3**
Depreciation and amortisation	(128.5)	(32.9)	(9.0)	-	(170.4)
Net finance costs					(118.6)
Income tax expense					(34.0)
Profit for the period					**79.3**
30 September 2018					
Regulated revenue	408.9	143.0	-	-	551.9
Customer contributions	32.5	4.8	-	-	37.3
Service revenue	-	-	36.5	-	36.5
Other revenue	5.0	4.8	7.9	-	17.7
Total segment revenue	**446.4**	**152.6**	**44.4**	**-**	**643.4**
Segment operating expense	(169.2)	(30.5)	(43.6)	-	(243.3)
Segment result - EBITDA (i)	**277.2**	**122.1**	**0.8**	**-**	**400.1**
Depreciation and amortisation	(140.5)	(24.8)	(4.7)	-	(170.0)
Net finance costs					(109.5)
Income tax expense					(36.4)
Profit for the period					**84.2**

(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 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 the Group's reportable segments (note B.1).

30 September 2019	Electricity distribution $M	Gas distribution $M	Mondo $M	Total $M
Timing of recognition				
At a point in time	61.3	6.1	26.3	93.7
Over time	422.7	137.0	12.6	572.3
Revenue from contracts with customers	**484.0**	**143.1**	**38.9**	**666.0**
Other income not in scope of AASB 15				
Operating lease income	0.1	-	-	0.1
Income from government grants	0.7	-	-	0.7
Total segment revenue	**484.8**	**143.1**	**38.9**	**666.8**
30 September 2018				
Timing of recognition				
At a point in time	46.2	13.5	34.6	94.3
Over time	399.7	139.1	9.8	548.6
Revenue from contracts with customers	445.9	152.6	44.4	642.9
Other income not in scope of AASB 15				
Lease income	0.1	-	-	0.1
Income from government grants	0.4	-	-	0.4
Total segment revenue	446.4	152.6	44.4	643.4

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) Mondo

Mondo 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 $M	Buildings $M	Easements $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	24.5	89.8	4.6	6,594.6	2,270.8	564.7	51.6	269.9	**9,870.5**
Accumulated depreciation	-	(11.7)	-	(2,235.3)	(650.7)	(480.1)	(4.0)	-	**(3,381.8)**
Carrying amount as at 30 September 2019	**24.5**	**78.1**	**4.6**	**4,359.3**	**1,620.1**	**84.6**	**47.6**	**269.9**	**6,488.7**
31 March 2019									
Cost	24.5	85.6	4.6	6,397.8	2,230.5	559.5	-	278.6	**9,581.1**
Accumulated depreciation	-	(10.9)	-	(2,148.7)	(625.4)	(465.1)	-	-	**(3,250.1)**
Carrying amount as at 31 March 2019	**24.5**	**74.7**	**4.6**	**4,249.1**	**1,605.1**	**94.4**	**-**	**278.6**	**6,331.0**

Note C.2 Intangible assets

	Distribution licences $M	Goodwill $M	Software $M	Other intangible assets $M	Total $M
30 September 2019					
Cost	354.5	35.8	507.9	4.0	902.2
Accumulated amortisation	-	-	(386.7)	(4.0)	(390.7)
Carrying amount as at 30 September 2019	**354.5**	**35.8**	**121.2**	**-**	**511.5**
31 March 2019					
Cost	354.5	35.8	487.6	4.1	882.0
Accumulated amortisation	-	-	(368.3)	(3.9)	(372.2)
Carrying amount as at 31 March 2019	**354.5**	**35.8**	**119.3**	**0.2**	**509.8**

Note C.3 Capital expenditure

	30 September 2019 $M	30 September 2018 $M
Electricity distribution	**228.3**	224.3
Gas distribution	**51.0**	48.6
Mondo	**8.6**	7.0
Total capital expenditure	**287.9**	279.9

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

	Maturity date	**30 September 2019 $M**	31 March 2019 $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 $180.6 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.

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**	5.0
Interest income – related parties	**52.5**	53.2
Total finance income	**53.6**	58.2
Finance costs		
Interest expense	**162.5**	163.1
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	**1.7**	2.4
Unwind of discount on lease liabilities	**2.1**	-
Defined benefit net interest income	**(0.3)**	(0.5)
Capitalised finance charges	**(4.5)**	(5.1)
Total finance costs	**172.2**	167.7
Net finance costs	**118.6**	109.5

Note D.3 Equity

		30 September 2019 $M	31 March 2019 $M
Contributed equity			
Ordinary share capital	(a)	**1,305.9**	1,305.9
Contribution from AusNet Services Ltd		**2.9**	2.4
Total contributed equity		**1,308.8**	1,308.3

Note D.3 Equity (continued)

(a) Movements in ordinary share capital

Date	Details	Number of shares	$M
1 April 2019	Opening balance	1,305,946,133	1,308.3
30 September 2019	Contribution from AusNet Services Ltd (i)	-	0.5
30 September 2019	**Closing balance**	**1,305,946,133**	**1,308.8**
1 April 2018	Opening balance	1,063,361,942	1,064.9
30 September 2018	Contribution from AusNet Services Ltd (i)	-	0.5
30 September 2018	**Closing balance**	**1,063,361,942**	**1,065.4**

(i) This represents the accounting for the AusNet Services Group's share based payment arrangements where the Group grants awards to its employees that will be settled in the shares of the parent.

Note D.4 Dividends

The following dividends were approved by AusNet Services Holdings Pty Ltd during the current period.

Dividend	Paid by	Date declared	Cents per share	Total dividend $M
FY20 dividend	AusNet Services Holdings Pty Ltd	23 September 2019	14.4	188.2
Total dividend			**14.4**	**188.2**

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 placed 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.

(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) 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 Holdings Pty Ltd (the Company):

(a) the interim financial statements and notes set out on pages 10 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 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.

Tony Narvaez
Managing Director

Melbourne
12 November 2019

Independent Auditor's Review Report

To the shareholders 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 2019 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 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 Holdings Pty 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 Holdings Pty Ltd, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

KPMG

KPMG

BW Szentirmay

Partner

Melbourne

12 November 2019