ASX Release

14 November 2018

Results for Announcement to the Market
AusNet Services Half Year 2019 Results

The following documents are attached:

1. ASX Appendix 4D – Half Year Report for the half year ended 30 September 2018; and
2. AusNet Services Interim Financial Report for the financial period ended 30 September 2018.

Claire Hamilton
Company Secretary

14 November 2018

AusNet Services Ltd
ABN: 45 603 317 559

Appendix 4D
Half Year ended 30 September 2018

Results for announcement to the market for the half year ended 30 September 2018

	30 September 2018	30 September 2017	% change	Up / down
Revenue from ordinary activities ($M)	**995.8**	1,068.7	6.8%	Down
Net profit from ordinary activities after tax attributable to shareholders ($M)	**181.5**	203.7	10.9%	Down
Net profit for the period attributable to shareholders ($M)	**181.5**	203.7	10.9%	Down
Net tangible assets per share (cents)	**83 cents**	88 cents		

Dividends paid during the interim period were a 4.62 cent per share unfranked final dividend paid on 28 June 2018.

Dividends for the half year ended 30 September 2018

	30 September 2018 Cents per share	**30 September 2017 Cents per share**
Interim dividend:		
Franked dividend	1.94	-
Unfranked dividend	2.92	4.63
Total interim dividend	**4.86**	**4.63**
Record date	20 Nov 2018	
Payment date	20 Dec 2018	

Refer to the Directors' report within the attached Interim Financial Report for explanation of revenues, profits after income tax and dividends.

Dividend Reinvestment Plan ("DRP")
The DRP recommences operation for the FY2019 interim dividend. A 2% discount (most recently nil) to the average trading price will apply. The average trading price will be the average of the volume weighted average price of shares sold in ordinary market transactions (as more particularly described in the DRP Rules) on the ASX during the 10 trading days from 22 November 2018 to 5 December 2018 (inclusive).

Elections in place when the DRP was suspended for the FY2018 final dividend continue to apply (subject to any subsequent changes or cancellations). The deadline to make, change or cancel elections for the FY2019 interim dividend is 5.00pm (Australian Eastern Daylight Time) on 21 November 2018. Participation, including eligibility, is subject to the DRP Rules - available at www.ausnetservices.com.au (> Investors > Shares and Investors > Dividend Reinvestment Plan).

AusNet Services Ltd
ACN 603 317 559

Interim Financial Report

For the financial period ended 30 September 2018

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

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

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of the Group for the year ended 31 March 2018 and any public announcements made by AusNet Services Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth).

The interim financial report was authorised for issue by the Directors on 13 November 2018.

Directors' Report

Introduction

The Directors of AusNet Services Ltd present their report on the general purpose interim financial report of the consolidated entity for the financial period ended 30 September 2018.

The financial report is for AusNet Services Ltd and its controlled entities (we, us, our, AusNet Services or the Group).

Our Board of Directors

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

Non-executive Directors

Peter **Mason** (Chairman)

Alan **Chan** Heng Loon (appointed 28 May 2018)

Ralph **Craven**

Sally **Farrier**

Ho Tian Yee (retired 28 May 2018)

Li Lequan (appointed 1 October 2018)

Robert **Milliner**

Nora **Scheinkestel**

Sun Jianxing (resigned 1 October 2018)

Tan Chee Meng

Executive Director

Nino **Ficca** – *Managing Director*

Directors' Report (continued)

Interim review of operations

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

$M	30 September 2018	30 September 2017	Movement	%
Revenue	**995.8**	1,068.7	(72.9)	(6.8)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**631.6**	647.4	(15.8)	(2.4)
Net profit after tax	**181.5**	203.7	(22.2)	(10.9)
Capital expenditure	**462.4**	321.0	141.4	44.0

Revenue declined $72.9 million period-on-period. Of this decrease, $27.3 million relates to the easement tax pass-through that impacts both revenue and operating expenditure in the electricity transmission network as a result of a change in accounting standards in relation to revenue recognition. This change in accounting standard has been applied prospectively from 1 April 2018. Excluding this accounting change revenue declined $45.6 million.

Regulated revenue decreased in electricity distribution due to reduced incentive revenues ($21.7 million in prior period, zero in the current period due to lower reliability performance in CY2016 as there is a two-year lag in receiving incentive revenues) and metering revenue hand back of previously received excess expenditures disallowed by the Australian Energy Regulator (AER). In gas distribution, revenues decreased due to the gas tariff regulatory price path. Commercial Energy Services revenues also reduced $18.5 million as a result of exiting of numerous service contracts in the prior period as part of a strategic refocus away from providing certain maintenance services.

Operating expenses (excluding easement tax) decreased $29.8 million, $18.3 million was in Commercial Energy Services as a result of reduced costs following contract rationalisation and $11.5 million across the three regulated businesses as a result of continuation of our cost efficiency program (net of wage and contract price increases).

In addition, net finance costs increased $13.8 million as a result of hedge accounting losses and higher interest costs due to higher levels of debt and higher capital expenditure.

Capital expenditure increased as a result of new wind farm connections, which added $69.2 million of capital expenditure in the Commercial Energy Services business (the resulting revenues will not commence until these projects are completed over the next 12 to 18 months) as well as $14.1 million of terminal station interface works in the electricity transmission business. In addition, the Rapid Earth Fault Current Limiter (REFCL) program and higher customer connections have led to increased electricity distribution capital expenditure.

Directors' Report (continued)

Interim review of operations (continued)

Electricity transmission business

	30 September 2018	30 September 2017	Movement	%
Segment revenue ($M)	**311.9**	325.3	(13.4)	(4.1)
Segment result - EBITDA ($M)	**201.5**	186.4	15.1	8.1
Capital expenditure ($M)	**98.1**	69.0	29.1	42.2

Transmission revenues decreased primarily as a result of the $27.3 million reduction in easement tax (pass-through revenue – no impact on EBITDA). While the quantum of easement tax for FY19 will be the same as FY18, this half year impact is due to changes in revenue recognition accounting standards requiring easement tax to have a linear profile for the financial year. Offsetting this revenue decrease is higher project revenues associated with transmission tower relocations.

Expenses decreased $1.2 million (excluding the $27.3 million decrease in easement tax) as a result of the continuing cost efficiency program.

Capital expenditure increased primarily as a result of $14.1 million of wind farm connection interface works (nil in the prior comparative period) as well as an increase in excluded projects (primarily customer initiated relocations). Major terminal station rebuilds at Richmond and West Melbourne make up $25.8 million of the spend, consistent with the prior comparative period.

Electricity distribution business

	30 September 2018	30 September 2017	Movement	%
Segment revenue ($M)	**446.4**	473.5	(27.1)	(5.7)
Segment result - EBITDA ($M)	**277.2**	292.4	(15.2)	(5.2)
Volume (GWh)	**3,937**	4,021	(84)	(2.1)
Connections	**732,523**	712,375	20,148	2.8
Capital expenditure ($M)	**224.3**	196.7	27.6	14.0

Revenues fell due to lower incentive revenues ($21.7 million in prior period, zero in the current period due to lower reliability performance in CY2016) and a $19.5 million reduction in metering revenue, primarily due to the hand back of previously received excess expenditures disallowed by the Australian Energy Regulator (AER). Offsetting these is a $16.1 million increase in customer contributions, primarily new housing developments.

Operating expenses decreased $11.9 million as a result of the cost efficiency program, with outsourcing initiatives in vegetation management and corporate support functions, in particular, reducing costs.

Capital expenditure increased due to the $15.2 million increase in REFCL expenditure as the program was only in place for part of the prior comparative period as well as increases in customer connection works.

<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 AER and revenue is set on a calendar year basis which differs to our financial year. Given the nature of the regulatory model and how tariffs are set, there are a number of items that will impact future revenues for our electricity distribution business as follows:

- There is a difference between the regulated revenue recognised under our accounting policy, and the revenue cap under the Electricity Distribution Price Review (EDPR) determination. This difference is trued-up as an adjustment to tariffs in future periods. At 30 September 2018 we have a cumulative over-recovery of $5.7 million which will reduce our revenue in CY2018 and CY2019.
- The AER's decision on our 2016 Advanced Metering Infrastructure (AMI) Transition Charges Application will result in future revenue reduction of $34.2 million, $6.7 million in the remainder of the CY2018 and the residual occurring equally during CY2019 and CY2020.
- In CY2019, we will re-commence earning incentive revenues under the Service Target Performance Incentive Scheme (STPIS) and are entitled to $19.4 million as a result of our CY2017 network reliability performance of which we will receive approximately $9.7 million in CY2019 and $9.7 million in CY2020.

Directors' Report (continued)

Interim review of operations (continued)

Gas distribution business

	30 September 2018	30 September 2017	Movement	%
Segment revenue ($M)	**152.6**	167.6	(15.0)	(8.9)
Segment result - EBITDA ($M)	**122.1**	137.6	(15.5)	(11.3)
Volume (PJ)	**42.8**	44.2	(1.4)	(3.2)
Connections	**701,682**	684,735	16,947	2.5
Capital expenditure ($M)	**48.6**	44.6	4.0	9.0

Regulated gas distribution revenues decreased due to the 9.4 per cent decrease in gas tariffs from 1 January 2018.

Operating expenses were positively impacted by our cost efficiency program.

The increase in capital expenditure reflects higher levels of customer connections.

Commercial Energy Services

	30 September 2018	30 September 2017	Movement	%
Segment revenue ($M)	**92.3**	110.8	(18.5)	(16.7)
Segment result - EBITDA ($M)	**30.8**	31.0	(0.2)	(0.6)
EBITDA Margin (%)	**33.4**	28.0	5.4	19.3
Capital expenditure ($M)	**91.4**	10.7	80.7	754.2

The Commercial Energy Services business consists of contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. Contracted infrastructure asset services own and operate a portfolio of assets that fall outside the regulated asset base (the largest of which is the Wonthaggi desalination plant transmission connection). The investments are made through directly negotiated agreements, pursuant to which AusNet Services typically receives revenue over the contract period in exchange for the infrastructure and operational services provided.

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

Revenues decreased $18.5 million from the comparative period, which included several contracts that were exited in the prior year as part of a strategic refocus away from providing certain maintenance services. EBITDA margins have increased as a result of the refocus.

Capex in the current period primarily relates to four new wind farm connections that commenced construction in the current period. The prior period included minimal capex in relation to wind farms ($3.0 million for Salt Creek, which was energised in June 2018).

Directors' Report (continued)

Financial position

Total equity of the Group was $3,537.5 million as at 30 September 2018, a decrease of $18.5 million compared to 31 March 2018. The net profit recognised for the six-month period has been offset by dividends paid as well as a $33.9 million reduction in retained earnings due to the transition impact of the new revenue recognition accounting standard.

Our current liabilities exceed current assets by $274.4 million at 30 September 2018. This includes $451.4 million of current borrowings maturing in April 2019. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 30 September 2018 we have available a total of $700 million of undrawn but committed non-current bank debt facilities, $70 million of undrawn but committed current bank debt facilities and $162.9 million of cash. The next maturity is a $283.2 million Swiss franc bond due in 2019 (face value).

Capital management

We manage our capital structure to maximise long-term returns to shareholders, as well as providing the flexibility to fund organic growth and other investment opportunities. An appropriate capital structure is also maintained to ensure an efficient cost of capital is available. Through our cash flows from operations and by maintaining an appropriate and prudent mix of debt and equity, we ensure that we achieve our targeted credit metrics that support an ‘A’ range credit rating.

Debt raising

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

In line with our Treasury Risk Policy, we maintain a diversified debt portfolio by maturity and source. AusNet Services has an A- credit rating from Standard and Poor’s and A3 from Moody’s Investor Services. This contributed to the successful completion of an A$200 million 25-year bond issue in May 2018. This issuance, along with the A$700 million of bank facilities secured in August 2018 for a combination of five, six and seven year terms, satisfies our refinancing requirements for at least the next twelve months.

Dividends

The final 2018 dividend paid to shareholders on 28 June 2018 was as follows:

	Cents per share	**Total dividend $M**
Unfranked dividend	4.62	166.8

Since the end of the financial period, the Directors have approved an interim dividend for 2018 of $175.8 million (4.86 cents per share) to be paid on 20 December 2018, franked to 40 per cent. The AusNet Services Ltd dividend reinvestment plan will be in operation for the FY2019 interim dividend, with shares allocated at a two percent discount to the volume weighted average price.

Material risks and uncertainties

We are committed to understanding and effectively managing risk to enhance our ability to deliver on our strategic objectives and meet expectations of our shareholders, employees, customers, suppliers and the communities in which we operate. We maintain oversight of our material business risks (financial and non-financial) at an enterprise-wide level, with regular reporting to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. In our 31 March 2018 annual report, we detailed the following principal risks which may materially impact the execution and achievement of our business strategy and financial prospects:

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

We provide the following update since the 31 March 2018 annual report:

Industry and regulatory risks update

Federal Government energy policy continues to be an area of significant uncertainty with the Federal Government abandoning its proposal in August 2018 for the introduction of the National Energy Guarantee (NEG).

In July 2018, the AER released a draft rate of return guideline. Overall, the approach to gearing, and to estimating the returns on equity and debt, is broadly consistent with that in current guidelines, with updated parameter estimates and data sources. The main impact is the proposed reduction in market risk premium from 6.5 to 6.0 per cent and the reduction in equity beta from 0.7 to 0.6. These impacts combined may reduce the rate of return in future revenue determinations by approximately 100 basis points, which would adversely affect profits and revenue determinations starting in FY2021 if implemented as drafted. A final guideline is expected in December 2018.

In November 2018, following formal information gathering, the AER released a discussion paper on the regulatory tax approach. This forms part of its review initiated by the Federal Minister for Energy in May highlighting a material difference between the regulatory allowance for tax costs and actual tax payments made. The AER has identified possible changes to the tax approach including recognising immediate expensing of capex, using the diminishing value approach for depreciable assets and reducing the lives for gas assets. The implementation of the suggested changes may adversely impact future revenues from the next regulatory reset period commencing 1 January 2021. We are in the process of responding to the discussion paper and a final report is expected in December 2018.

Rapid Earth Fault Current Limiter (REFCL) update

On 31 August 2018, the AER made a final decision on AusNet Services' contingent project application for tranche two of the REFCL installation program, approving total capital expenditure of $140 million, consistent with our application.

Since publishing the final decision for tranche one of the project, the Essential Services Commission Victoria (ESCV) completed its review of the voltage standards in the Victorian Electricity Distribution Code (VEDC). Of particular relevance to the tranche two decision, the revised VEDC that came into effect on 20 August 2018 identifies high voltage (HV) customers as being responsible for ensuring their electrical assets are able to withstand higher voltages occurring during REFCL operation.

To date, AusNet Services has spent $84 million on REFCL projects. Under the *Electricity Safety (Bushfire Mitigation) Regulations* 2013, AusNet Services is required to meet a defined quota of zone substations with compliant REFCLs by 1 May 2019 (tranche one), with additional targets by 1 May 2021 and 1 May 2023. In addition, the regulations also specify strict performance criteria that the REFCLs are required to operate under.

Some issues have been identified during the testing of installed REFCLs related to the technical characteristics of existing equipment at various sites, which means that the achievement of the “required capacity” under the regulations remains a challenge due to the new use of this technology and its interaction with the existing network. While we continue to actively work on resolving these issues, delays are expected to achieving compliance. Under the process prescribed in the *Electricity Safety Amendment (Bushfire Mitigation Civil Penalties Regime) Act* 2017 we intend to apply for extensions of time to Energy Safe Victoria (ESV) where required. The legislation prescribes substantial penalties if we do not achieve the defined quota by 1 May 2019 and if extensions are not granted.

As detailed in the March 2018 Financial Report, this program presents several other risks, including funding risk, technology risk, vendor risk, compliance risk and delivery risk. These risks continue to be present and are being actively managed.

Environmental regulation and climate change

We were subject to both Federal and State Government environmental legislation during the year. The most significant areas of environmental legislation applying to AusNet Services in Victoria are those which regulate noise emissions, greenhouse gas emissions, the discharge of emissions to land, air and water, the management of oils, chemicals and dangerous goods, the disposal of wastes, and those which govern the assessment of land use including the approval of developments. The Directors are not aware of any breaches of legislation during the year which are material in nature.

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007 (Cth)*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. We meet these thresholds and have lodged our current year's NGER reporting with the Clean Energy Regulator for the period from 1 July 2017 to 30 June 2018.

Significant changes in the state of affairs

Other than referred to above, in the opinion of the Directors, there were no significant changes in the state of affairs of the Group that occurred during the year under review.

Matters subsequent to the end of the financial period

Dividend

Since the end of the financial year, the Directors have approved an interim dividend for 2018 of $175.8 million (4.86 cents per share) to be paid on 20 December 2018. The AusNet Services Ltd dividend reinvestment plan will be in operation for the FY2019 interim dividend, with shares allocated at a two percent discount to the volume weighted average price.

Rounding of amounts

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

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

Peter Mason
Chairman

Nino Ficca
Managing Director

Melbourne
13 November 2018

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

To the Directors of AusNet Services Ltd

I declare that, to the best of my knowledge and belief, in relation to the review of AusNet Services Ltd for the half-year ended 30 September 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Paul J McDonald

Paul J McDonald

Partner

Melbourne

13 November 2018

Consolidated interim income statement
For the period ended 30 September 2018

	Notes	30 September 2018 $M	30 September 2017 $M
Revenue	B.1	**995.8**	1,068.7
Use of system and associated charges		**(47.6)**	(49.1)
Easement and land tax		**(71.0)**	(98.3)
Employee benefit expenses		**(94.4)**	(104.0)
External maintenance and contractors services		**(59.2)**	(76.0)
Materials		**(14.4)**	(18.1)
Information technology and communication costs		**(24.7)**	(29.0)
Operating lease rental expenses		**(5.2)**	(7.0)
Administrative expenses		**(16.4)**	(16.1)
Disposal of property plant and equipment		**(11.5)**	(5.1)
Other costs		**(19.8)**	(18.6)
Total expenses excluding depreciation, amortisation, interest and tax		**(364.2)**	(421.3)
Earnings before interest, tax, depreciation and amortisation		**631.6**	647.4
Depreciation and amortisation		**(222.6)**	(220.3)
Profit from operating activities		**409.0**	427.1
Finance income	D.2	**11.2**	8.1
Finance costs	D.2	**(160.6)**	(143.7)
Net finance costs		**(149.4)**	(135.6)
Profit before income tax		**259.6**	291.5
Income tax expense		**(78.1)**	(87.8)
Profit for the period		**181.5**	203.7
Basic and diluted earnings per share (cents per share)	B.4	**5.03**	5.65

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

Consolidated interim statement of comprehensive income

For the period ended 30 September 2018

	30 September 2018 $M	30 September 2017 $M
Profit for the period	**181.5**	203.7
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	**5.5**	(2.2)
Income tax on movement in defined benefit fund	**(1.6)**	0.7
	3.9	(1.5)
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	**(3.8)**	(11.8)
Income tax on movement in hedge reserve	**2.4**	5.2
	(1.4)	(6.6)
Other comprehensive income for the period, net of income tax	**2.5**	(8.1)
Total comprehensive income for the period	**184.0**	195.6

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

Consolidated interim statement of financial position

As at 30 September 2018

	Notes	30 September 2018 $M	31 March 2018 $M
ASSETS			
Current assets			
Cash and cash equivalents		**162.9**	658.2
Receivables		**241.4**	183.0
Desalination licence receivable		**12.2**	12.3
Inventories		**45.7**	42.3
Derivative financial instruments		**107.1**	0.9
Other assets		**52.5**	24.5
Total current assets		**621.8**	921.2
Non-current assets			
Inventories		**18.3**	18.9
Property, plant and equipment	C.1	**10,525.0**	10,291.8
Intangible assets	C.2	**543.7**	550.1
Desalination licence receivable		**176.4**	180.8
Derivative financial instruments		**419.4**	501.6
Other assets		**61.0**	52.9
Total non-current assets		**11,743.8**	11,596.1
Total assets		**12,365.6**	12,517.3
LIABILITIES			
Current liabilities			
Payables and other liabilities		**312.0**	280.4
Provisions		**83.6**	93.3
Borrowings	D.1	**451.4**	465.4
Derivative financial instruments		**0.8**	77.8
Current tax payable		**48.4**	3.6
Total current liabilities		**896.2**	920.5
Non-current liabilities			
Deferred revenue		**153.1**	87.1
Provisions		**52.7**	49.6
Borrowings	D.1	**6,968.0**	7,099.7
Derivative financial instruments		**139.2**	192.9
Deferred tax liabilities		**618.9**	611.5
Total non-current liabilities		**7,931.9**	8,040.8
Total liabilities		**8,828.1**	8,961.3
Net assets		**3,537.5**	3,556.0
EQUITY			
Contributed equity	D.3	**5,163.6**	5,162.5
Reserves		**(1,564.6)**	(1,560.3)
Retained profits		**1,033.6**	1,048.9
Other equity		**(1,095.1)**	(1,095.1)
Total equity		**3,537.5**	3,556.0

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

Consolidated interim statement of changes in equity

For the period ended 30 September 2018

	Notes	Share capital $M	Restructure reserve (i) $M	Hedge reserve (ii) $M	Asset Revaluation Reserve (iii) $M	Share based payment reserve (iv) $M	Other equity component (v) $M	Retained profits $M	Total equity $M
30 September 2018									
Balance as at 1 April 2018		5,162.5	(1,501.9)	(117.1)	51.4	7.3	(1,095.1)	1,048.9	3,556.0
Impact of change in accounting policy	A	-	-	-	-	-	-	(33.9)	(33.9)
Adjusted balance as at 1 April 2018		**5,162.5**	**(1,501.9)**	**(117.1)**	**51.4**	**7.3**	**(1,095.1)**	**1,015.0**	**3,522.1**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	181.5	181.5
Other comprehensive income		-	-	(1.4)	-	-	-	3.9	2.5
Total comprehensive income for the period		**-**	**-**	**(1.4)**	**-**	**-**	**-**	**185.4**	**184.0**
Transactions with owners, recorded directly in equity									
Dividends paid	D.4	-	-	-	-	-	-	(166.8)	(166.8)
Share based payment reserve	D.3	4.2	-	-	-	(2.9)	-	-	1.3
Shares purchased as part of employee share plans	D.3	(3.1)	-	-	-	-	-	-	(3.1)
Total transactions with owners		**1.1**	**-**	**-**	**-**	**(2.9)**	**-**	**(166.8)**	**(168.6)**
Balance as at 30 September 2018		**5,163.6**	**(1,501.9)**	**(118.5)**	**51.4**	**4.4**	**(1,095.1)**	**1,033.6**	**3,537.5**
30 September 2017									
Balance as at 1 April 2017		5,153.2	(1,501.9)	(17.8)	51.4	3.8	(1,095.1)	1,104.8	3,698.4
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	203.7	203.7
Other comprehensive income		-	-	(6.6)	-	-	-	(1.5)	(8.1)
Total comprehensive income for the period		**-**	**-**	**(6.6)**	**-**	**-**	**-**	**202.2**	**195.6**
Transactions with owners, recorded directly in equity									
Dividends paid	D.4	-	-	-	-	-	-	(194.6)	(194.6)
Dividend Reinvestment Plan (net of transaction costs)	D.4	12.2	-	-	-	-	-	-	12.2
Share based payment reserve		-	-	-	-	1.5	-	-	1.5
Shares purchased as part of employee share plans	D.3	(10.3)	-	-	-	-	-	-	(10.3)
Total transactions with owners		**1.9**	**-**	**-**	**-**	**1.5**	**-**	**(194.6)**	**(191.2)**
Balance as at 30 September 2017		**5,155.1**	**(1,501.9)**	**(24.4)**	**51.4**	**5.3**	**(1,095.1)**	**1,112.4**	**3,702.8**

Consolidated interim statement of changes in equity

For the period ended 30 September 2018

(i) Under the corporate restructure, AusNet Services Ltd shares were issued to shareholders in return for their stapled securities. AusNet Services Ltd share capital was measured at fair value on the date of the transaction, being the market capitalisation of the AusNet Services Stapled Group on the date of implementation of 18 June 2015 ($4,957.7 million). The difference between the contributed equity of AusNet Services Ltd and the pre-restructure contributed equity of the Stapled Group at the date of the transaction was recognised as a restructure reserve.

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

(iii) This amount represents the fair value uplift to the assets of the AusNet Services Transmission Group on the date that the previous Stapled Group was formed. The fair value uplift was applied to easements which are considered to have an indefinite useful life. The amount was carried into the asset revaluation reserve of the Group following the corporate restructure on 18 June 2015.

(iv) The share based payment reserve represents the tax-effected fair value of the performance rights granted under the 2016-2018 tranches of the long-term incentive plan. This takes into account estimated vesting and service conditions as at 30 September 2018.

(v) The other equity component results from the application of reverse acquisition accounting and represents the difference between the net assets of AusNet Services (Transmission) Ltd and AusNet Finance Pty Ltd and the purchase price paid by the legal acquirer, AusNet Services (Transmission) Ltd on 20 October 2005.

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

Consolidated interim statement of cash flows

For the period ended 30 September 2018

	30 September 2018 $M	30 September 2017 $M
Cash flows from operating activities		
Profit for the period	**181.5**	203.7
Add back interest, tax, depreciation	**450.1**	443.7
Other non-cash items	**(9.1)**	0.2
Working capital movement	**(61.3)**	(60.7)
Income tax (paid)/refunded	**(10.7)**	10.5
Net interest paid	**(141.4)**	(141.7)
Net cash inflow from operating activities	**409.1**	455.7
Cash flows from investing activities		
Payments for property, plant and equipment (i)	**(427.4)**	(344.7)
Proceeds from sale of property, plant and equipment	**0.6**	0.3
Receipts from desalination licence receivable	**4.4**	4.4
Net cash outflow from investing activities	**(422.4)**	(340.0)
Cash flows from financing activities		
Payments for employee share plans	**(3.1)**	(10.3)
Dividends paid (ii)	**(166.8)**	(182.4)
Proceeds from borrowings	**225.4**	583.5
Repayments of borrowings	**(537.5)**	(820.5)
Net cash outflow from financing activities	**(482.0)**	(429.7)
Net decrease in cash held	**(495.3)**	(314.0)
Cash and cash equivalents at beginning of the period	**658.2**	328.8
Cash and cash equivalents at the end of the period	**162.9**	14.8

(i) Net finance costs include a credit of $11.9 million (2017: $7.9 million) for capitalised finance charges which is included in payments for property, plant and equipment.

(ii) There was no Dividend Reinvestment Plan (DRP) for the period ended 30 September 2018. In the period ended 30 September 2017, the amounts shown represents dividends paid of $194.6 million (including special dividend of $36.0 million) offset by proceeds from the DRP net of transactions costs of $12.2 million.

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

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 2018, represents the consolidated financial statements of the Group, which comprises AusNet Services Ltd and its subsidiaries. The Group is also referred to as we, us, our or AusNet Services.

The financial report has been prepared:

- in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth);
- on a going concern basis, which contemplates the continuity of normal trading operations. The Group's current liabilities exceed current assets by $274.4 million at 30 September 2018 primarily due to $451.4 million of current borrowings. The Group is, and is expected to continue trading profitably, generating positive operating cash flows, and successfully refinancing maturing debt. In addition, at 30 September 2018 we have available a total of $700 million of undrawn but committed non-current bank debt facilities, $70 million of undrawn but committed current bank debt facilities and $162.9 million of cash. The next maturity is a $283.2 million Swiss franc bond due in April 2019 (face value);
- under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value; and
- with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Instrument 2016/191 issued by the Australian Securities and Investments Commission.

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of the Group for the year ended 31 March 2018 and any public announcements made by AusNet Services Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act*.

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

The interim financial statements were approved by the Board of Directors on 13 November 2018.

Except for the adoption of AASB 15 *Revenue from Contracts with Customers*, the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2018. For the period ended 30 September 2017, we have amended some categories of expenses to be consistent with how they are reviewed and analysed for internal management purposes.

(b) Critical accounting estimates and judgements

The preparation of the financial report requires management to make estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

In preparing this consolidated interim financial report, the key sources of estimation uncertainty were the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2018. Some of the critical judgements and estimates used by management in applying the Group's accounting policies for the period ended 30 September 2018 have been updated to reflect the latest available information. Except for the adoption of AASB 15, these updates have not had a significant impact on the financial performance or financial position of the Group as at and for the period ended 30 September 2018.

During the period, the Australian Taxation Office (ATO) completed a Pre-Lodgement Compliance Review (PCR) for the income years 31 March 2017 and 31 March 2016. The PCR identified matters in respect of which the ATO has sought additional information and where the interpretation of tax laws may affect the amount of provision for income tax and deferred tax balances recognised. While work is ongoing it is our current belief that these matters should not result in a material adverse adjustment.

Section A Overview (continued)

(c) Change in accounting policies – *AASB 15 Revenue from Contracts with Customers*

AASB 15 was adopted from 1 April 2018, using the cumulative effect transition method. The cumulative effect transition method allows opening balances of the current period to be adjusted for transition to the new standard. This disclosure shows the impact of AASB 15 on the current period's financial statements.

The following adjustments arose as a result of the transition to AASB 15:

Negotiated and unregulated transmission contracts

Management performed a review of significant contracts which resulted in a change to negotiated and unregulated transmission connection contracts. The net impact was a reduction of $1.0 million on the profit after tax for the period ended 30 September 2018.

The cumulative transition adjustment was a reduction in retained earnings of $33.9 million (after tax, represented by a $48.4 million increase in deferred revenue and a $14.5 million decrease in deferred tax liabilities) as at 1 April 2018. The billing schedules in most of these contracts recover higher amounts in the first half of the contract (which are generally 30 year contracts). Under AASB 15, these contracts are considered to have one performance obligation settled evenly over time, being the provision of connection services to the customer. As such, revenue is required to be recognised evenly over the contract term. This results in a deferral of revenue for most of these contracts in the first half of their contract term.

Easement tax revenue

In the period ended 30 September 2018 AusNet Services paid easement tax of $95.5 million (total annual assessment $136.4 million). As a result of the transition to AASB 15, management determined that the easement tax expense (and pass-through revenue) for the period should represent 50% of the annual charge as it is not a separate performance obligation to our other regulated transmission revenue which is recognised over time. This has resulted in the deferral of $27.3 million of revenue and the prepayment of $27.3 million of easement tax expense in the consolidated interim statement of financial position at 30 September 2018. There is no impact on net profit for the period.

The following tables summarise the impact of adopting AASB 15 on the Group's consolidated interim statement of financial position as at 30 September 2018 and its consolidated interim income statement for the period then ended for each of the line items affected. There was no material impact on the Group's interim statement of cash flows for the period ended 30 September 2018.

Section A Overview (continued)

(c) Change in accounting policies – AASB 15 *Revenue from Contracts with Customers* (continued)

Consolidated statement of financial position as at 30 September 2018

	Before adoption of AASB 15 $M	Impact of AASB 15 $M	Reported $M
ASSETS			
Current assets			
Other assets	25.2	27.3	52.5
Total current assets	594.5	27.3	621.8
Total assets	**12,338.3**	**27.3**	**12,365.6**
LIABILITIES			
Current liabilities			
Payables and other liabilities	284.2	27.8[1]	312.0
Total current liabilities	**868.4**	**27.8**	**896.2**
Non-current liabilities			
Deferred revenue	103.8	49.3[1]	153.1
Deferred tax liabilities	633.8	(14.9)	618.9
Total non-current liabilities	7,897.5	34.4	7,931.9
Total liabilities	**8,765.9**	**62.2**	**8,828.1**
EQUITY			
Retained profits	1,068.5	(34.9)[2]	1,033.6
Total equity	**3,572.4**	**(34.9)**	**3,537.5**

1 – Includes AASB 15 transition adjustment of $48.4 million ($47.5 million non-current, $0.9 million current), $1.4 million of FY2019 deferrals related to negotiated and unregulated transmission contracts, and $27.3 million related to easement tax revenue deferral.

2 – Includes transition adjustment of $33.9 million and $1.0 million of FY2019 deferrals.

Consolidated income statement for the period ended 30 September 2018

	Before adoption of AASB 15 $M	Impact of AASB 15 $M	Reported $M
Revenue	1,024.5	(28.7)	995.8
Easement and land tax	(98.3)	27.3	(71.0)
Profit before income tax	**261.0**	**(1.4)**	**259.6**
Income tax expense	(78.5)	0.4	(78.1)
Profit for the period	**182.5**	**(1.0)**	**181.5**

Section B Operating our business

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

Note B.1 Segment information

Segment information is based on the information that management uses to make decisions about operating matters and allows users to review operations through the eyes of management. We present our reportable segments and measure our segment results for each of our networks as well as our unregulated commercial energy services business.

(a) Description of reportable segments

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses for which discrete financial information is available and whose operating results are regularly reviewed by the chief operating decision maker. The Group is organised into the following segments:

(i) Electricity distribution

The electricity distribution network carries electricity from the high voltage transmission network to end users, including metering. We charge retailers and some large customers regulated rates for the use of the electricity distribution network. The electricity distribution segment does not purchase or sell electricity. Our electricity distribution network covers eastern Victoria including the eastern metropolitan region of Melbourne.

(ii) Gas distribution

The gas distribution network carries natural gas to commercial and residential end users, including metering. We charge retailers and some large customers regulated rates for the use of the gas distribution network. The gas distribution segment does not purchase or sell gas. Our gas distribution network covers central and western Victoria.

(iii) Electricity transmission

We own and manage the vast majority of the electricity transmission network in Victoria. Our electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power generators to electricity distributors around Victoria forming the backbone of the Victorian electricity network. We charge the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network. The electricity transmission segment does not purchase or sell electricity.

(iv) Commercial Energy Services

The Commercial Energy Services business consists of contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. Contracted infrastructure asset services own and operate a portfolio of assets that fall outside the regulated asset base (the largest of which is the Wonthaggi desalination plant transmission connection). The investments are made through directly negotiated agreements, pursuant to which AusNet Services typically receives revenue over the contract period in exchange for the infrastructure and operational services provided. The customers of this business primarily operate in the utility, renewables and essential infrastructure sectors of electricity, water, gas and rail.

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Note B.1 Segment information (continued)

(b) Reportable segment financial information

	Electricity distribution	Gas distribution	Electricity transmission	Commercial Energy Services	Inter-segment eliminations	Consolidated
30 September 2018	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**
Regulated revenue	408.9	143.0	270.1	-	(5.0)	817.0
Excluded transmission revenue	-	-	39.1	-	-	39.1
Unregulated infrastructure revenue	-	-	-	26.1	-	26.1
Customer contributions	32.5	4.8	-	-	-	37.3
Service revenue	-	-	-	58.3	(2.4)	55.9
Other revenue	5.0	4.8	2.7	7.9	-	20.4
Total segment revenue	**446.4**	**152.6**	**311.9**	**92.3**	**(7.4)**	**995.8**
Segment expense before depreciation and amortisation	(169.2)	(30.5)	(110.4)	(61.5)	7.4	(364.2)
Segment result - EBITDA (i)	**277.2**	**122.1**	**201.5**	**30.8**	**-**	**631.6**
Depreciation and amortisation	(140.5)	(24.8)	(46.8)	(10.5)	-	(222.6)
Net finance costs						(149.4)
Income tax expense						(78.1)
Profit for the period						**181.5**
30 September 2017						
Regulated revenue	452.9	158.4	298.5	-	(4.7)	905.1
Excluded transmission revenue	-	-	25.7	-	-	25.7
Unregulated infrastructure revenue	-	-	-	25.0	-	25.0
Customer contributions	16.4	9.0	-	-	-	25.4
Service revenue	-	-	-	76.4	(2.8)	73.6
Other revenue	4.2	0.2	1.1	9.4	(1.0)	13.9
Total segment revenue	**473.5**	**167.6**	**325.3**	**110.8**	**(8.5)**	**1,068.7**
Segment expense before depreciation and amortisation	(181.1)	(30.0)	(138.9)	(79.8)	8.5	(421.3)
Segment result - EBITDA (i)	**292.4**	**137.6**	**186.4**	**31.0**	**-**	**647.4**
Depreciation and amortisation	(135.4)	(22.7)	(53.0)	(9.2)	-	(220.3)
Net finance costs						(135.6)
Income tax expense						(87.8)
Profit for the period						**203.7**

(i) Earnings before interest, tax, depreciation and amortisation

(c) Notes to and forming part of the segment information

(i) Accounting policies

Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. The Cost Allocation Methodology as approved by the Australian Energy Regulator (AER) is used as the basis for allocating expenses to the relevant segment.

(ii) Inter-segment eliminations

Segment revenues, expenses and results include transactions between the segments that are eliminated on consolidation.

Note B.2 Revenue from contracts with customers

Disaggregated revenue

In the following table, revenue is disaggregated by revenue type and timing of recognition. The table also includes a reconciliation of the disaggregated revenue with AusNet Services' reportable segments (note B.1).

30 September 2018	Electricity distribution	Gas distribution	Electricity transmission	Commercial Energy Services	Inter-segment eliminations	Total
	$M	$M	$M	$M	$M	$M
Timing of recognition						
At a point in time	46.2	13.5	2.5	47.0	-	109.2
Over time	399.7	139.1	309.2	45.3	(7.4)	885.9
Revenue from contracts with customers	445.9	152.6	311.7	92.3	(7.4)	995.1
Other income not in scope of AASB 15						
Lease income	0.1	-	0.2	-	-	0.3
Income from government grants	0.4	-	-	-	-	0.4
Total segment revenue	446.4	152.6	311.9	92.3	(7.4)	995.8

Note B.3 Seasonality of operations

(a) Electricity distribution

Electricity distribution volumes display some seasonal variation with increased volumes in winter due to higher demand for heating and increased volumes in summer as a result of higher demand for air conditioning. However, the impact of seasonal volume variation on electricity distribution revenue is limited due to the tariff structure, which includes a fixed component and a contract demand capacity component. The high proportion of process related consumption of commercial and industrial customers also limits seasonal variation in electricity distribution revenue. Electricity distribution revenue operates under a revenue cap, with the amount of total revenue fixed over the regulatory reset period. Any under/over recovery in a particular calendar year will be built into subsequent years' tariffs.

(b) Gas distribution

Gas distribution volume is seasonal with a distinct winter peak due to gas demand for heating. A component of the seasonal revenue variation is mitigated due to the tariff structure, which includes a fixed component and a demand capacity-based component.

(c) Electricity transmission

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

(d) Commercial Energy Services

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

Note B.4 Earnings per share

(a) Basic earnings per share

		30 September 2018	30 September 2017
	Profit attributable to the ordinary shareholders of AusNet Services ($M)	**181.5**	203.7
divided by	Weighted average number of shares (million)	**3,609.0**	3,603.7
equals	Basic earnings per share (cents)	**5.03**	5.65

(b) Diluted earnings per share

There were no factors causing a dilution of either the profit or loss attributable to ordinary shareholders or the weighted average number of ordinary shares outstanding. We have the option to issue equity to meet vested share rights to employees, however we are currently purchasing these on market. Accordingly, basic and diluted earnings per share are the same.

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	Transmission network	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital work in progress	Total
	$M	$M	$M	$M	$M	$M	$M	$M	$M
30 September 2018									
Cost	253.5	508.2	1,223.2	3,003.7	5,552.8	2,051.7	658.1	645.8	13,897.0
Accumulated depreciation	-	(97.1)	-	(833.8)	(1,486.8)	(469.7)	(484.6)	-	(3,372.0)
Carrying amount as at 30 September 2018	**253.5**	**411.1**	**1,223.2**	**2,169.9**	**4,066.0**	**1,582.0**	**173.5**	**645.8**	**10,525.0**
31 March 2018									
Cost	253.5	521.5	1,223.4	2,899.3	5,414.0	2,012.9	677.7	529.2	13,531.5
Accumulated depreciation	-	(98.5)	-	(795.0)	(1,406.9)	(455.6)	(483.7)	-	(3,239.7)
Carrying amount as at 31 March 2018	**253.5**	**423.0**	**1,223.4**	**2,104.3**	**4,007.1**	**1,557.3**	**194.0**	**529.2**	**10,291.8**

Note C.2 Intangible assets

	Distribution licences	Goodwill	Software	Other intangible assets	Total
	$M	$M	$M	$M	$M
30 September 2018					
Cost	354.5	35.8	565.8	5.5	961.6
Accumulated amortisation	-	-	(412.8)	(5.1)	(417.9)
Carrying amount as at 30 September 2018	**354.5**	**35.8**	**153.0**	**0.4**	**543.7**
31 March 2018					
Cost	354.5	35.8	545.8	5.5	941.6
Accumulated amortisation	-	-	(386.7)	(4.8)	(391.5)
Carrying amount as at 31 March 2018	**354.5**	**35.8**	**159.1**	**0.7**	**550.1**

Note C.3 Capital expenditure

	30 September 2018	30 September 2017
	$M	$M
Electricity distribution	**224.3**	196.7
Gas distribution	**48.6**	44.6
Electricity transmission	**98.1**	69.0
Commercial energy services	**91.4**	10.7
Total capital expenditure	**462.4**	321.0

Section D Financing our business

This section provides information relating to our capital structure and our exposure to financial risks, how they affect the Group's financial position and performance, and how those risks are managed. The Group's financial risk management objectives and policies are consistent with those disclosed in the Group's consolidated financial report as at and for the year ended 31 March 2018.

Note D.1 Borrowings

	Maturity date	**30 September 2018 $M**	31 March 2018 $M
Current borrowings			
Pound sterling (GBP) senior notes (i)	Jun 2018	**-**	461.4
Bank debt facilities	Oct 2018	**30.0**	4.0
Swiss franc (CHF) senior notes (i)	Apr 2019	**390.1**	-
Domestic medium term notes	Apr 2019	**31.3**	-
Total current borrowings		**451.4**	465.4
Non-current borrowings			
Swiss franc (CHF) senior notes (i)	2019	**-**	378.4
Floating rate notes	2020	**99.9**	99.9
Euro (EUR) senior notes (i)	2020-2030	**2,603.4**	2,608.6
Hong Kong dollar (HKD) senior notes (i)	2020-2033	**828.5**	785.0
Domestic medium term notes	2020-2043	**2,228.1**	2,063.8
Japanese Yen (JPY) senior notes (i)	2024	**62.8**	63.4
US dollar (USD) senior notes (i)	2026	**110.8**	103.3
Norwegian Kroner (NOK) senior notes (i)	2027-2029	**340.8**	333.8
United States dollar (USD) hybrid (i), (ii)	2076	**492.1**	464.7
Singapore dollar (SGD) hybrid (i), (ii)	2076	**201.6**	198.8
Total non-current borrowings		**6,968.0**	7,099.7
Total borrowings		**7,419.4**	7,565.1

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

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

AusNet Services had $700 million of undrawn but committed non-current bank debt facilities, $70 million of undrawn but committed current bank debt facilities and $162.9 million cash on deposit as at 30 September 2018. AusNet Services has an A- credit rating from Standard and Poor's and an A3 credit rating from Moody's Investor Services.

(a) Fair value measurement

Derivative financial instruments are recognised at fair value and are measured in accordance with generally accepted pricing models based on discounted cash flow analysis. Appropriate transaction costs are included in the determination of net fair value. These pricing models use significant market observable data as well as market corroboration based on active quotes. As such, fair value measurements are deemed level two within the fair value hierarchy as per AASB 13 *Fair Value Measurement*. The Group does not have any financial instruments which would be categorised as either level one or three of the fair value hierarchy.

The Group also has a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings, the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 30 September 2018.

Note D.1 Borrowings (continued)

(a) Fair value measurement (continued)

The fair value of total borrowings as at 30 September 2018 is $7,983.4 million (31 March 2018: $8,152.3 million). This fair value measurement uses significant market observable data, and therefore is a level two measurement within the fair value hierarchy as per AASB 13. The valuation techniques applied are consistent with those applied in the consolidated financial report as at and for the year ended 31 March 2018.

Note D.2 Net finance costs

	30 September 2018 $M	30 September 2017 $M
Finance income		
Interest income	**5.3**	1.9
Return on desalination licence receivable	**5.9**	6.2
Total finance income	**11.2**	8.1
Finance costs		
Interest expense	**163.2**	153.9
Other finance charges - cash	**1.6**	1.5
Other finance charges - non-cash	**2.7**	1.2
Loss/(gain) on accounting for hedge relationships	**3.5**	(5.6)
Unwind of discount on provisions	**2.3**	1.2
Defined benefit net interest income	**(0.8)**	(0.6)
Capitalised finance charges	**(11.9)**	(7.9)
Total finance costs	**160.6**	143.7
Net finance costs	**149.4**	135.6

Note D.3 Equity

		30 September 2018 $M	31 March 2018 $M
Contributed equity			
Ordinary share capital	(a)	**5,172.8**	5,172.8
Shares held by employee share plans trust	(b)	**(9.2)**	(10.3)
Total contributed equity		**5,163.6**	5,162.5

(a) Movements in ordinary share capital

Date	**Details**	**Notes**	**Number of shares**	**$M**
1 April 2018	Opening balance		3,614,346,765	5,172.8
30 September 2018	**Closing balance**		**3,614,346,765**	**5,172.8**
1 April 2017	Opening balance		3,603,155,012	5,153.2
27 June 2017	Dividend Reinvestment Plan	(i)	7,214,309	12.2
30 September 2017	**Closing balance**		**3,610,369,321**	**5,165.4**

(i) On 27 June 2017, 7.2 million new shares were issued under the DRP. The new shares were issued at a price of $1.69 providing approximately $12.2 million.

Note D.3 Equity (continued)

(b) Shares held by employee share plans trust

The Group uses an employee share trust as a delivery mechanism to satisfy future vesting entitlements for the Short Term Incentive Plan deferred equity rights for the Managing Director and the Long Term Incentive Plan (LTIP) performance rights. During the financial period, 1,901,462 shares were acquired on market at an average price of $1.60 per share and 2,411,082 shares vested at an average price of $1.73 per share.

The share trust is held by Computershare Pty Ltd and for accounting purposes the trust is deemed to be controlled by AusNet Services. Accordingly, the shares held by the trust are consolidated into the Group's financial statements. The shares have been excluded for the earnings per share calculation in note B.4.

Note D.4 Dividends

The following dividends were approved and paid by AusNet Services to shareholders during the current and previous interim financial periods:

Current period	Date paid	Cents per share	Total dividend $M
Ordinary dividend - unfranked	28 June 2018	4.62	166.8
Total dividends		**4.62**	**166.8**
Previous period			
Ordinary dividend - unfranked	27 June 2017	4.40	158.6
Special dividend – unfranked	27 June 2017	1.00	36.0
Total dividends		**5.40**	**194.6**

In relation to the dividend paid in the previous financial period of $194.6 million, $12.2 million less transaction costs was utilised in the allotment of new shares issued under the DRP.

Section E Other disclosures

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

Note E.1 Contingent liabilities and contingent assets

(a) Rapid Earth Fault Current Limiter (REFCL) penalty regime

To date, AusNet Services has spent $84 million on REFCL projects. Under the *Electricity Safety (Bushfire Mitigation) Regulations* 2013, AusNet Services is required to meet a defined quota of zone substations with compliant REFCLs by 1 May 2019 (tranche 1), with additional targets by 1 May 2021 and 1 May 2023. In addition, the regulations also specify strict performance criteria that the REFCLs are required to operate under.

Some issues have been identified during the testing of installed REFCLs related to the technical characteristics of existing equipment at various sites, which means that the achievement of the “required capacity” under the regulations remains a challenge due to the new use of this technology and its interaction with the existing network. While we continue to actively work on resolving these issues, delays are expected to achieving compliance. Under the process prescribed in the *Electricity Safety Amendment (Bushfire Mitigation Civil Penalties Regime) Act* 2017 we intend to apply for extensions of time to Energy Safe Victoria (ESV) where required. The legislation prescribes substantial penalties if we do not achieve the defined quota by 1 May 2019 and if extensions are not granted.

Given the complexities associated with the implementation of the REFCL program between now and 1 May 2019 and ongoing discussions with the ESV, it is not practicable to estimate the possible financial statement effect at this time.

(b) Other

AusNet Services is involved in various legal and administrative proceedings and various claims on foot, the ultimate resolution of which, in the opinion of AusNet Services, will not have a material effect on the consolidated financial position, results of operations or cash flows.

Other than as listed above, we are not aware of any contingent liabilities or assets as at 30 September 2018 (2017: $0).

Note E.2 Events occurring after the balance sheet date

(a) Dividend

The Directors have approved an interim dividend for FY2019 to be paid on 20 December 2018, comprised as follows:

	Cents per share	Total dividend $M
Franked dividend	1.94	70.3
Unfranked dividend	2.92	105.5
	4.86	**175.8**

The AusNet Services Ltd DRP will be in operation for the FY2019 interim dividend, with shares allocated at a two per cent discount to the volume weighted average price.

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 30 September 2018 up to the date of issue of this financial report that has significantly affected or may significantly affect:

(a) the operations in the financial period subsequent to 30 September 2018 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in the financial period subsequent to 30 September 2018, of the Group.

Directors' declaration

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

(a) the interim financial statements and notes set out on pages 11 to 30, are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 September 2018 and its performance for the six-month period ended on that date; and

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

Signed in accordance with a resolution of the Directors.

Peter Mason
Chairman

Nino Ficca
Managing Director

Melbourne
13 November 2018

KPMG

Independent Auditor's Review Report

To the shareholders of AusNet Services Ltd

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of AusNet Services Ltd.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of AusNet Services Ltd is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 September 2018 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated interim statement of financial position as at 30 September 2018
- Consolidated interim income statement, Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the half-year ended on that date
- Notes comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The Group comprises AusNet Services Ltd (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 September 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of AusNet Services Ltd, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

KPMG

Paul J McDonald

Paul J McDonald

Partner

Melbourne

13 November 2018