

ASX & SGX-ST Release



19 June 2015

TO: ASX Limited
Singapore Exchange Securities Trading Limited

AusNet Services Business Review 2015

Attached is a copy of AusNet Services' Business Review 2015, which will be published on AusNet Services' website today.

Susan Taylor
Company Secretary



Business Review 2015

*We
move
energy*

About this review

This *Business Review* highlights AusNet Services' business performance during the financial year ending 31 March 2015 and provides an overview of the company strategy.

The 2015 *Business Review* is not a concise report prepared under section 314(2) of the *Corporations Act 2001* (Cth). The information contained in this document is correct as at 31 May 2015, unless otherwise stated. Comprehensive financial information about AusNet Services is available in our *Statutory Annual Report*, available on our website: www.ausnetservices.com.au

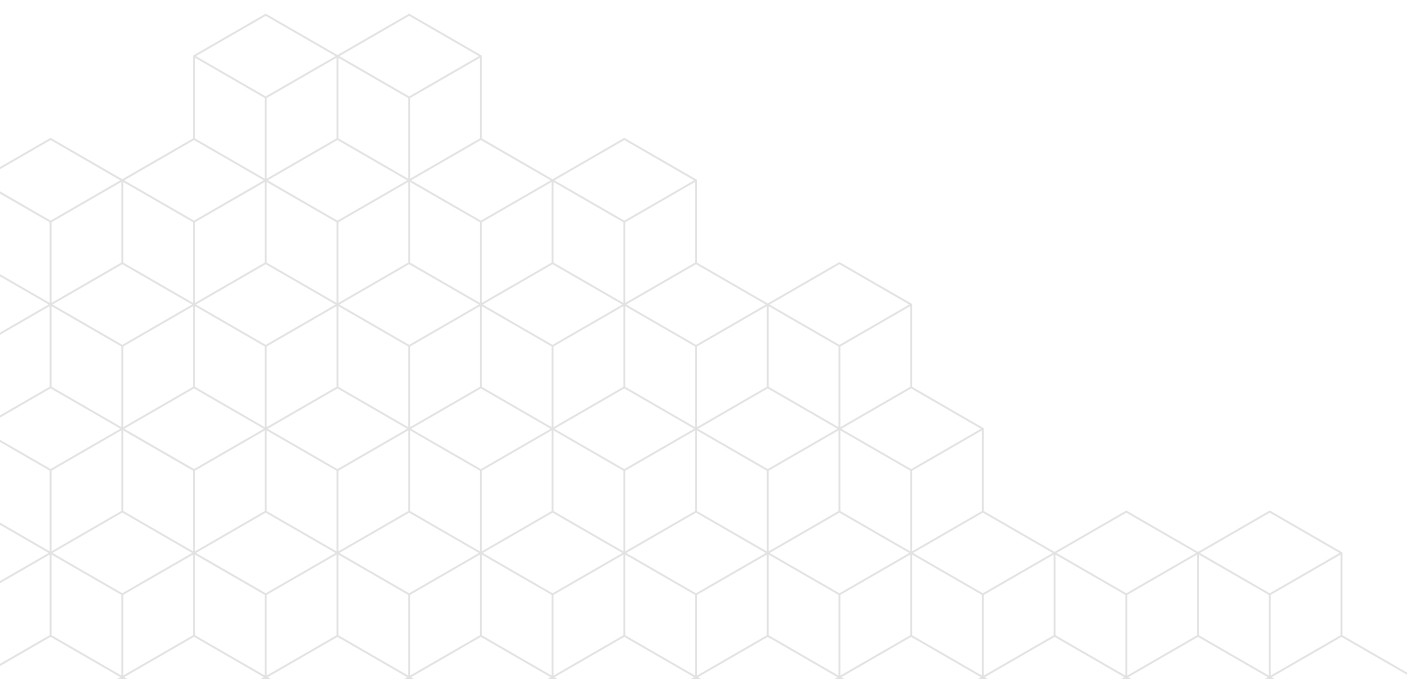
About the front cover

In August 2014, we launched our new company brand, AusNet Services, which reflects our history as a major Australian energy infrastructure company.

This cover depicts our strength in making the complex business of moving energy trouble-free for our customers and communities.

Contents

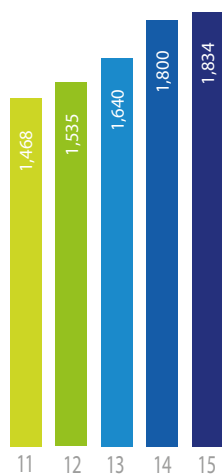
1	FY2015 at a glance
2	Who we are
4	Chairman and Managing Director's report
6	Sustainable business, scorecard and our strategy
8	Our Board of Directors and Executive Leadership Team
9	Our financials
10	Our people
12	Our customers
14	Our environment
15	Our community
16	Our governance and risk management
18	Financial performance
21	Company information



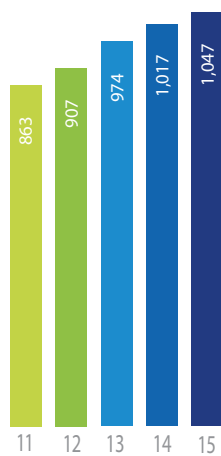
FY2015 at a glance



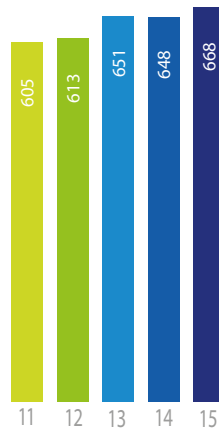
Revenue growth
A\$ million



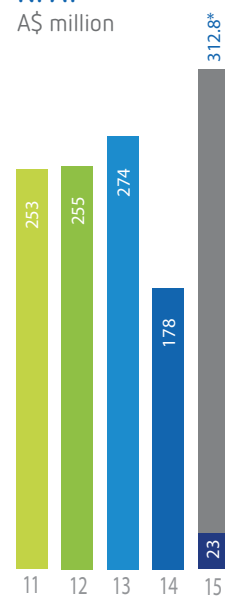
EBITDA growth
A\$ million



EBIT growth
A\$ million

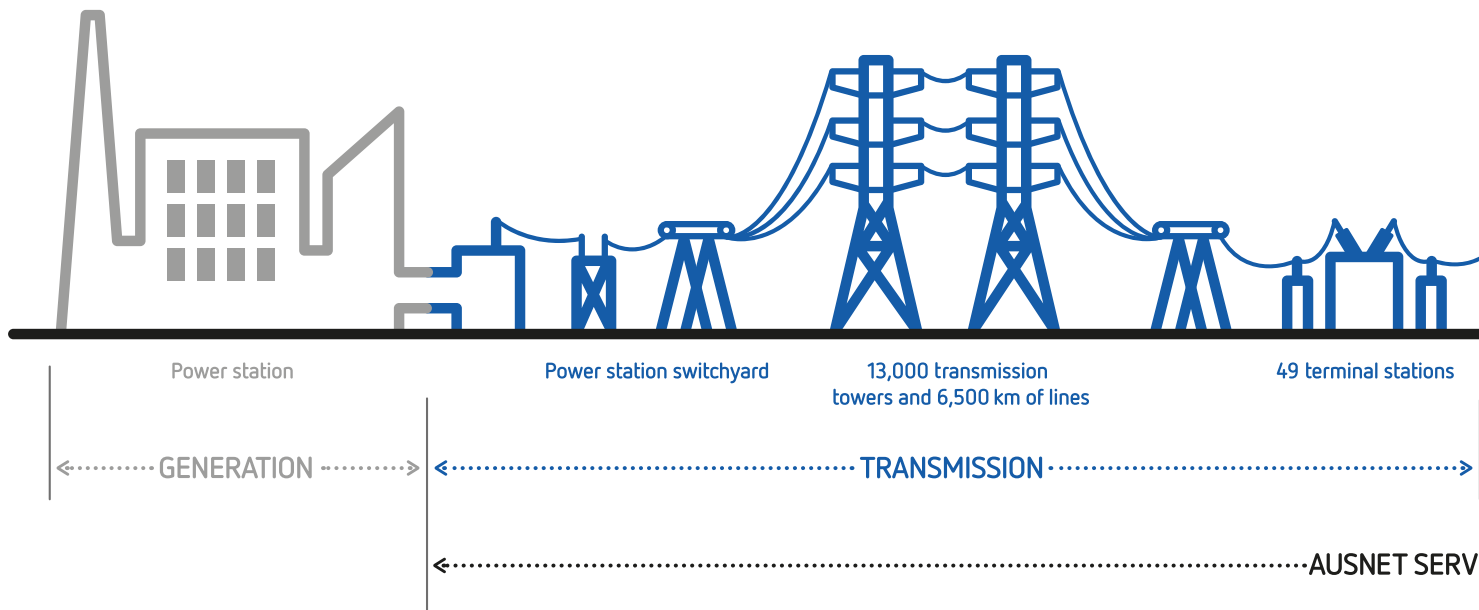


NPAT
A\$ million



*Adjusted EBITDA and NPAT.

Who we are



AusNet Services is Victoria's largest energy delivery service business, owning and operating approximately \$11bn of electricity and gas transmission and distribution assets.

Our strength is making the complex task of moving energy across Victoria safe, efficient and reliable.

In addition to our regulated energy networks, AusNet Services also owns Select Solutions and Geomatic Technologies.

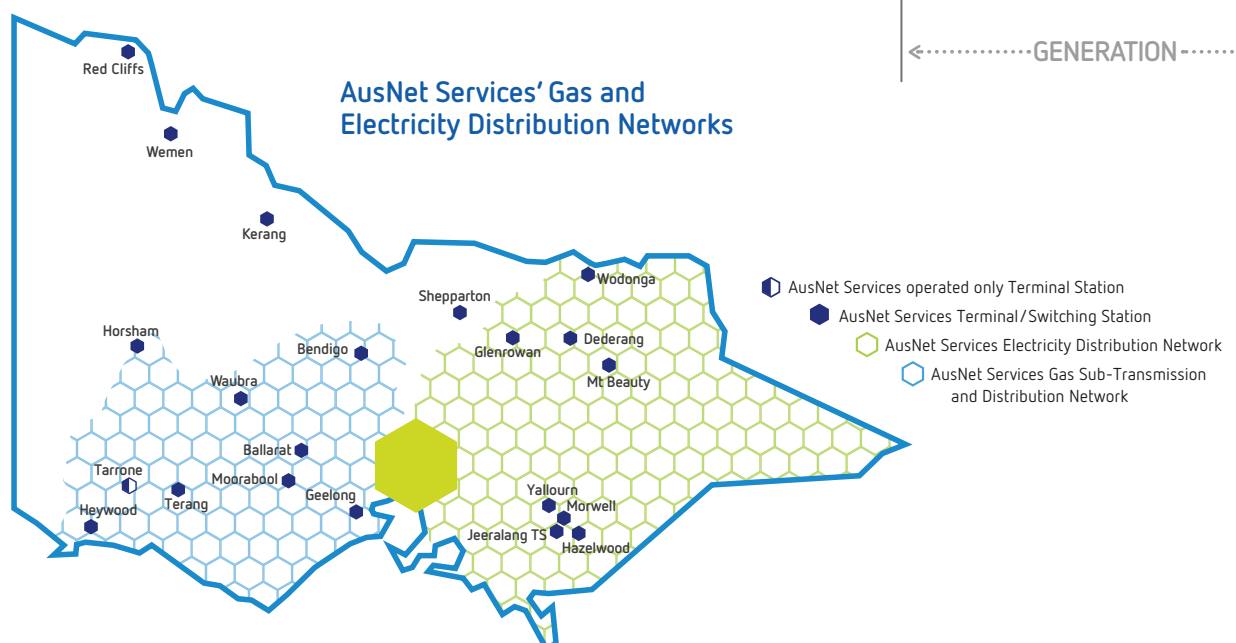
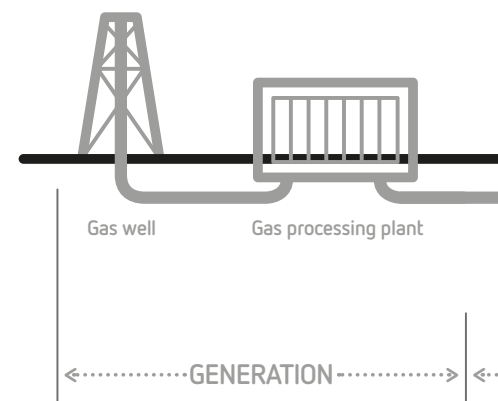
Select Solutions is the leading specialist provider of metering, data and asset

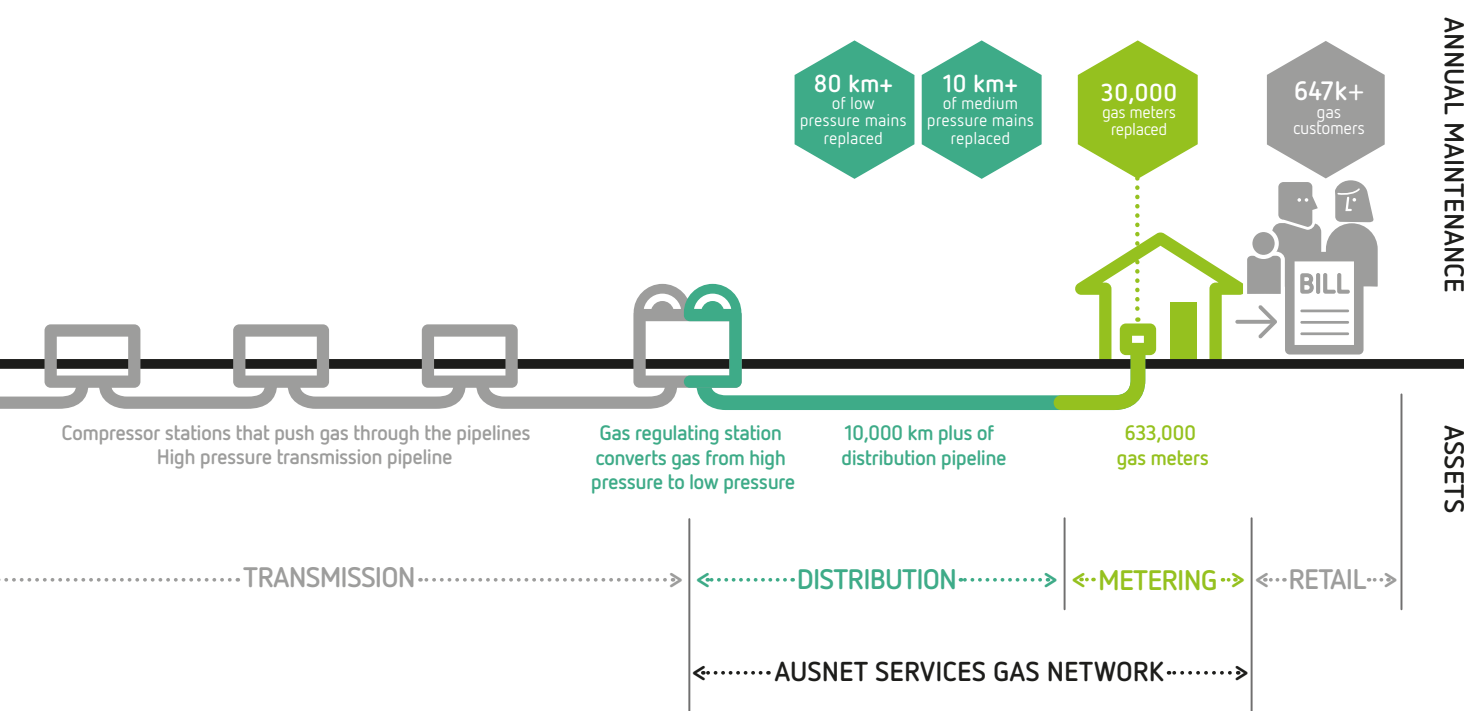
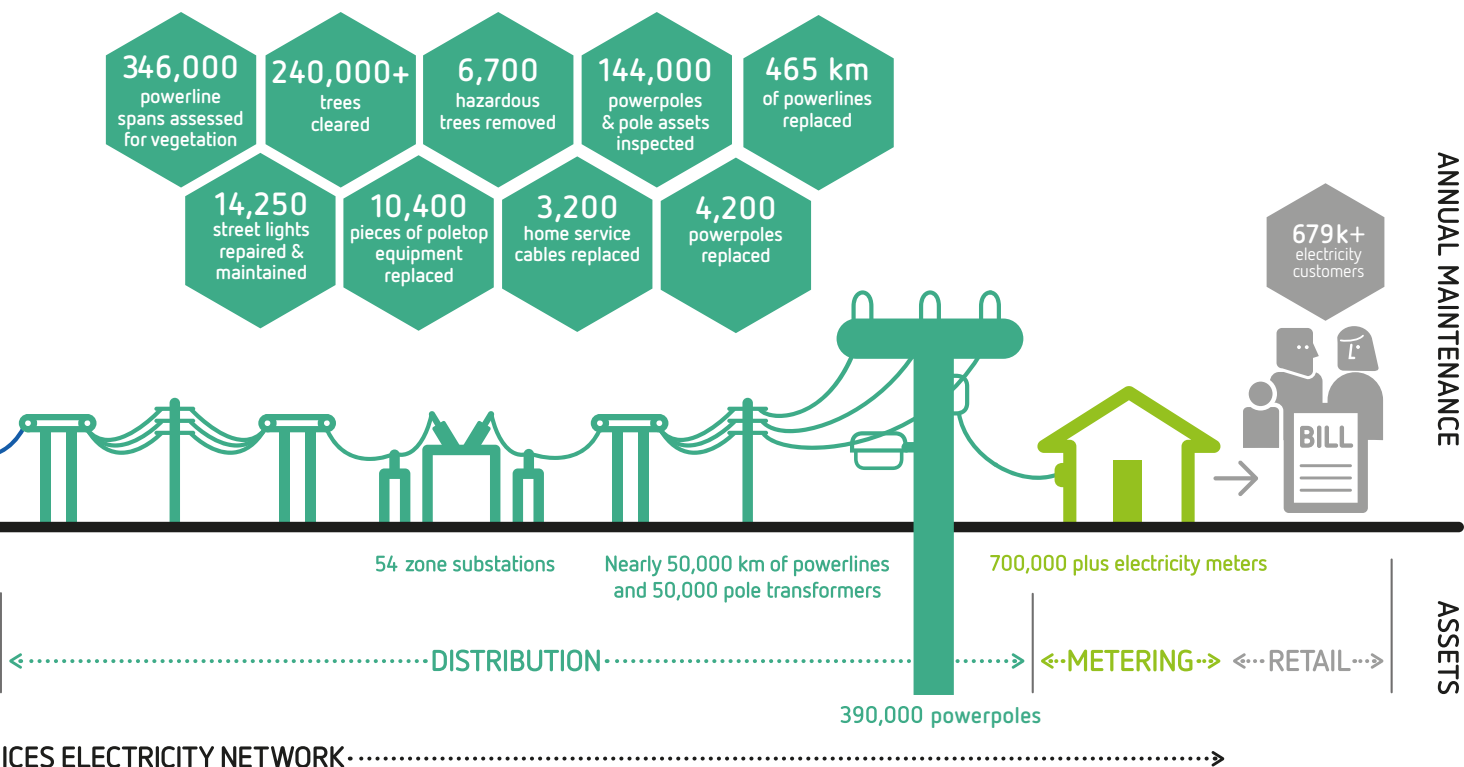
management solutions in the electricity, gas, water and telecommunications industries in Australia.

Geomatic Technologies is a recognised leader in advanced mobile and spatial technologies and amongst Australia's leading providers of IT integrated solutions and services.

Headquartered in Melbourne, AusNet Services employs more than 2,600 people in regional and metropolitan Victoria and has more than 1.3 million residential and business customers.

AusNet Services is listed on the Australian Securities Exchange (ASX: AST) and the Singapore Exchange (SGX-ST: X04).





Chairman and Managing Director's report

Welcome to the AusNet Services *Business Review 2015*, our first since we rebranded to AusNet Services in August 2014. The new brand reflects our history as a major Australian energy infrastructure company and our commitment to servicing our customers better now and in the future.

Safety

Safety is a top priority for AusNet Services. For the 2015 financial year, we maintained our Recordable Injury Frequency Rate (RIFR) – a key industry safety metric – at 6.7.

Despite not achieving our 20 per cent RIFR reduction target (5.38) in 2015, we have reduced our RIFR by 41 per cent since launching our missionZero safety program in 2011 – a significant achievement.

We have also seen continuous improvement in other safety index measures, including improved hazard and near miss reporting, improved corrective action and reducing injuries that require more than 10 consecutive days' recovery by 86 per cent.

During the year, our missionZero "We Keep Each Other Safe" safety campaign was recognised as a finalist out of more than 150 nominations in the National Safety Awards of Excellence.

The campaign itself was highly successful, with approximately 400 metropolitan and regional employees involved in creating nearly 50 entries expressing what "We Keep Each Other Safe" meant to them.

We must remain focused on our missionZero safety strategy and vision to ensure that all our employees return home safely.

Changing energy landscape

The changing energy landscape continued to shape our operating environment in the 2014/15 financial year, creating challenges as well as opportunities. These included:

- > increased customer engagement on energy issues;
- > emerging technologies and alternative energy sources; and
- > regulatory and policy changes.

Through active engagement, our customers have helped shape our upcoming electricity transmission and distribution regulatory pricing reviews, providing feedback at several forums, technical workshops and focus groups.

We are actively pursuing the potential offered by emerging technology, having launched an Australian-first battery storage trial in December 2014, which is designed to offset peak demand and deliver future network and customer benefits.

Regulation and policy changes continued to shine a light on energy businesses, including networks businesses. We have played a constructive role in the debate, making a strong case for Victorian distribution businesses in terms of efficiency, prudent investment and fair prices to consumers.

Performance

Our underlying financial performance was sound. We reported a 1.9 per cent increase in revenue to \$1,833.9m, underpinned by higher tariffs in electricity distribution and our Advanced Metering Infrastructure (AMI) program.

We achieved a 2.9 per cent increase in earnings before interest tax and depreciation due to prudent cost management. However, this performance was significantly impacted by the recognition of a \$32.5m customer rebate and \$28m asset write-off related to the AMI program.

Additional one-off items also impacted our net profit, down 87.3 per cent from 2014, to 22.6m.

These include a higher income tax expense due to a \$183.3m intra-Group financing settlement with the Australian Tax Office (ATO) and recognition of \$84.1m, potentially payable, relating to an intellectual property dispute with the ATO.

The Directors declared a final 2015 distribution of 4.18 Australian cents per security (60 per cent franked), or 8.36 cents per security for financial year 2015.



Operationally, our focus has remained on business transformation, including preparing for the implementation of SAP. In early May 2015, we implemented a new way of working underpinned by SAP, amalgamating multiple business systems to a more efficient operating model that will be a key enabler in delivering significant business efficiencies.

Importantly, we also resolved several outstanding issues, settling the Black Saturday bushfire class actions (without admission of liability or material economic impact) and the ATO settlement, forgoing potential lengthy litigation.

Despite falling demand in electricity (1.6 per cent) and gas (4.2 per cent), we experienced continued customer growth, adding 14,352 gas (2.3 per cent) and 10,610 electricity (1.6 per cent) customers.

Completing the AMI program remains a key focus for the business. We're making progress on managing the instability issues with our program, delivering on our remediation plan to complete the technology upgrade by late 2016.

Outlook

The 2015/16 financial year is the third year of a five-year corporate strategy, designed to deliver more value from our core business as well as pursue growth opportunities.

Our focus on growth will involve pursuing opportunities:

- > in the potential privatisation of state-owned electricity infrastructure;
- > in new markets for unregulated infrastructure;
- > leveraging Select Solutions' expertise in utilities asset management services to reach new markets and customers; and
- > based on the economics of new technologies, such as battery storage, provide energy solutions for both network and customer applications.

At the same time, we will continue our focus on business transformation and continue implementing our AMI program so customers can benefit from increased services.

In May, our securityholders voted in favour of replacing our triple stapled security structure with a new, single entity called AusNet Services Ltd. While our underlying business and assets will not change, there are many benefits under this simplified structure, which will take effect in the 2016 financial year.

Engaging with our customers will remain a priority, and customer engagement is being integrated as an ongoing activity throughout our business.

To support our efforts, we have refreshed our Corporate Values to reflect the evolution of our business and to express the beliefs and principles we agree to share at AusNet Services.

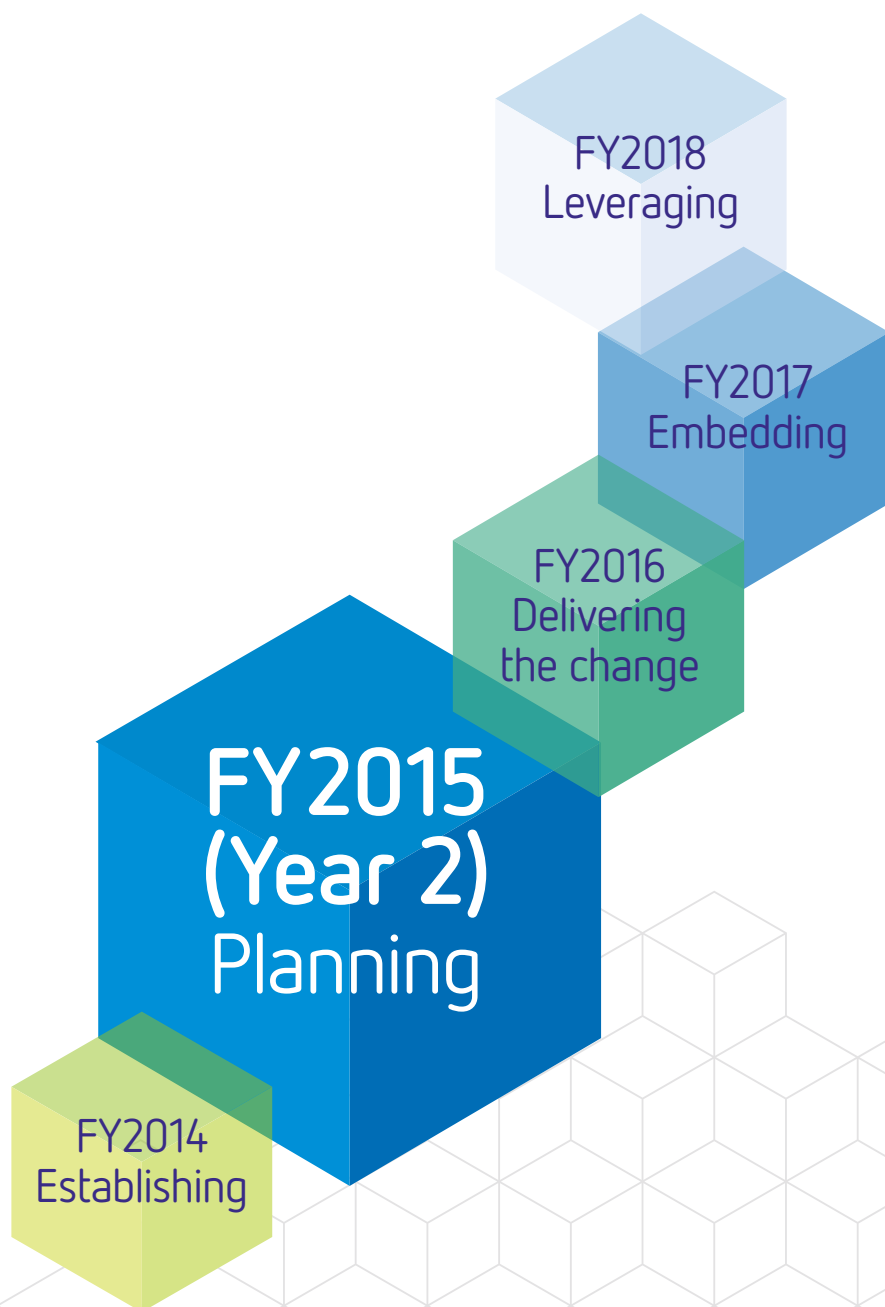
As we manage these projects and challenges, we'll continue to ensure that safety and our commitment to missionZero are always front of mind.



Mr Ng Kee Choe
Chairman



Mr Nino Ficca
Managing Director



Sustainable business, scorecard and our strategy

At AusNet Services, our purpose is to provide our customers with superior network and energy solutions – this commitment is the foundation of everything we do.

Our strategy aims to deliver value from our core business operations and explore growth opportunities in a challenging and evolving environment.

We do this by focusing on transformative initiatives that support efficient operations and deliver long-term growth for our business, our customers and community.

Our year-on-year results against each key performance indicator (KPI) drive our business transformation journey, ensuring we are well placed for sustainable growth in a highly regulated and changing market.

In 2015, year two of our five-year corporate business plan, we focused on planning for change and establishing the frameworks and platforms upon which the strategy will be realised.

Despite not achieving all our corporate KPIs, during the year AusNet Services delivered on a range of targets and worked towards addressing key challenges.

Moving forward

Our purpose and corporate objectives will remain unchanged in the 2016 financial year.

We'll be focused on "delivering the change", with our strategy designed to deliver more value from our core business as well as pursue growth opportunities and engage more with our customers.

A new customer KPI has been added to our scorecard, measuring our performance against a range of metrics, including customer complaints, effort scores, accuracy of communications for faults and the rate of cancelled planned outages.

To support our efforts, we have refreshed our Corporate Values to reflect the evolution of our business and to express the beliefs and principles we agree to share at AusNet Services.

Importantly, we'll continue to ensure safety is always front of mind at all times.

Key achievements and challenges

Safety Performance

- > We exceeded our target reduction of ground and asset fires (≤ 225) by 19 per cent, which meant our performance was more than 40 per cent below the regulatory benchmark of 257 for the year, known as the "f-factor".
- > This performance was achieved predominantly through our significant safety enhancement programs, which include the replacement of 48,000 wooden crossarms with steel models and 28,000 neutral service cables during the 2011–15 regulatory period.
- > While we didn't achieve our targeted reduction in Recordable Injury Frequency Rate (5.38), our performance remained flat (6.7), with contractors contributing to a high number of recordable injuries.

People

- > Our voluntary turnover of talent increased over the past year, despite significant efforts to retain key talent. This reflects increased external competition for key talent in the market.

Customer

- > Our customer network satisfaction rating was 2 per cent above our scorecard target (70 per cent), achieved in part by improving our management of, and customer communications for, planned electricity outages.

Financial Performance

- > Our actual EBITDA and NPAT results were impacted by several one-off items, while our adjusted NPAT and EBITDA results were sound (please refer to the footnote at the bottom of page 9).
- > We achieved our "A" range credit rating target, which helps access competitively priced funding, and cashflow targets, which are used to pay distributions to securityholders.

Business & Asset Performance

- > We achieved our aggregate incentive scheme performance target for our three networks, driven in part by improvements in reliability.
- > We also developed, built and tested an SAP IT system, known as "Project WorkOut", on time and on budget.
- > Our capital efficiency of completing works program target was also met, with efficiencies achieved through a greater use of internal resources, innovative planning and lower cost of materials.
- > Our AMI program continues to be a challenge; however, we are working to program completion in late 2016.

Performance measure	Actual FY15	Actual FY14	
F-factor scheme	182	176	↑
HSEQ Index Achievement of 100	80	N/A*	
Recordable Injury Frequency Rate (%)	6.7	6.7	–
Voluntary Turnover of Talent (%)	4.8	3.9	↑
Network Customer Satisfaction (%)	72	70	↑
NPAT (\$M) – Actual	22.6	178.3	↓
– Adjusted	312.8	320.9	↓
EBITDA (\$M) – Actual	1,047.2	1,017.4	↑
– Adjusted	1,079.7	1,097.3	↓
Return on Equity (%)	3.5	5.31	↓
Maintain "A" Range Credit Metrics	A Range	A Range	–
Cashflow from Operations (\$M)	767.6	730.2**	
Select Solutions EBITDA (\$M)	23.2	24.9	↓
Aggregate Incentive Scheme Performance (\$M)	30.1	N/A*	
Capital Efficiency of Completing Works Program (%)	5.4	-6.3	↑
AMI Program Delivery – on time and budget	X	X	–
Workout Delivery – on time and budget	✓	✓	–

*N/A indicates performance measure wasn't measured in that year. **Not a performance measure in FY2014, \$730.2m was the reported cash flow.

Our Board of Directors



From left to right

Ng Kee Choe

Chairman – Non-executive Director
BSc (Hons) University of Singapore

Dr Ralph Craven

Non-executive Director
Eng (Elec) (Hons) University of Queensland,
PhD, University of New South Wales, GDip
(Mgt) Deakin University, GDip (Information
Processing) University of Queensland

Sally Marie Farrier

Independent Non-executive Director
BEng (Chem) (Hons) University of Canterbury,
New Zealand, MBA Victoria University of
Wellington, GDip (Finance and Investment
Analysis) Securities Institute of Australia

Nino Ficca

Managing Director
BEng (Elec) (Hons) Deakin University,
Grad Dip Mgmt, Deakin University,
AMP Harvard Business School

Ho Tian Yee

Non-executive Director
BEc (Hons) Portsmouth University

Tony Mario Iannello

Independent Non-executive Director
BComm University of Western Australia,
AMP Harvard Business School

Tina Renna McMeckan

Independent Non-executive Director
BLA.Sc San Diego State University USA,
MBA University of Melbourne

Ian Andrew Renard AM

Independent Non-executive Director
BA University of Melbourne, LLM University
of Melbourne, LLD (Hons), University of
Melbourne

Sun Jianxing

Non-executive Director
BEng Northeast Dianli University,
China

Full details on AusNet Services' Board of Directors can be found at www.ausnetservices.com.au

Our Executive Leadership Team



From left to right

Nino Ficca

Managing Director

Adam Newman

Chief Financial Officer

Susan Taylor

General Counsel and Company Secretary

John Azaris

General Manager – Service Delivery

Chad Hymas

General Manager – Strategy and Business
Development

John Kelso

General Manager – Select Solutions

Claire Hamilton

General Manager – Risk and Assurance

Geraldine Leslie

General Manager – People, Safety and
Customer

Mario Tieppo

Chief Information Officer

Alistair Parker

General Manager – Asset Management

Our financials

In financial year 2015, we reported a 1.9 per cent increase in revenues to \$1,833.9m, a 2.9 per cent increase in earnings before interest, tax, depreciation and amortisation (EBITDA) to \$1,047.2m and a net profit after tax of \$22.6m.

By network, electricity distribution revenues were up \$65m (8 per cent) due to increases in regulated prices and AMI; gas revenue declined \$33m (15 per cent) due to lower regulated prices and customer contributions (\$14m); while transmission revenues declined by \$8m due to the impact of Transmission Revenue Reset (TRR) reset on 1 April 2014.

We also saw an \$11m increase in revenue from our Select Solutions business in relation to the Geomatic Technologies acquisition, made in February 2014.

Our EBITDA result was positive; however, our net profit after tax variance to the prior corresponding period (-87.3 per cent) was principally due to several one-off impacts, including:

- > \$183.3m impact due to a binding agreement with the ATO to settle all matters concerning the intra-Group financing review (Division 974 audit and related reviews) and rights to future income issues;
- > \$84.1m recognition of amounts potentially payable relating to an intellectual property dispute with the ATO;
- > \$32.5m AMI customer rebates provision; and
- > \$28.1m AMI asset write-off.

Excluding these one-off items, net profit after tax for the year would have been \$312.8m, slightly lower (2.6 per cent) than the previous year.

We declared a final 2015 distribution of 4.18 Australian cents per security (60 per cent franked), or 8.36 cents per security for financial year 2015.

Our Regulated Asset Base (RAB) grew 5 per cent to \$8.6bn, below the preceding year's 8 per cent growth, with capital expenditure down 12 per cent to \$809m from FY2014.

This reduction in capital expenditure was due to deferred expenditure in the AMI program (\$50m), delayed or deferred transmission expenditure (\$15m) due to lower demand forecasts and delayed works at the Brunswick and Heywood terminal stations (\$5m).

Modest levels of capital expenditure growth are forecast until 2017, approximately 4.5 per cent, which includes gifted assets associated with the Bald Hills Wind Farm and State Government gas extension program.

Capital and debt funding

During the year, we raised more than \$1.1bn of debt in various capital markets. This included 15-year \$160m equivalent of Norwegian Krona (NOK) bonds, making AusNet Services the first non-financial company in Australia to issue a NOK bond.

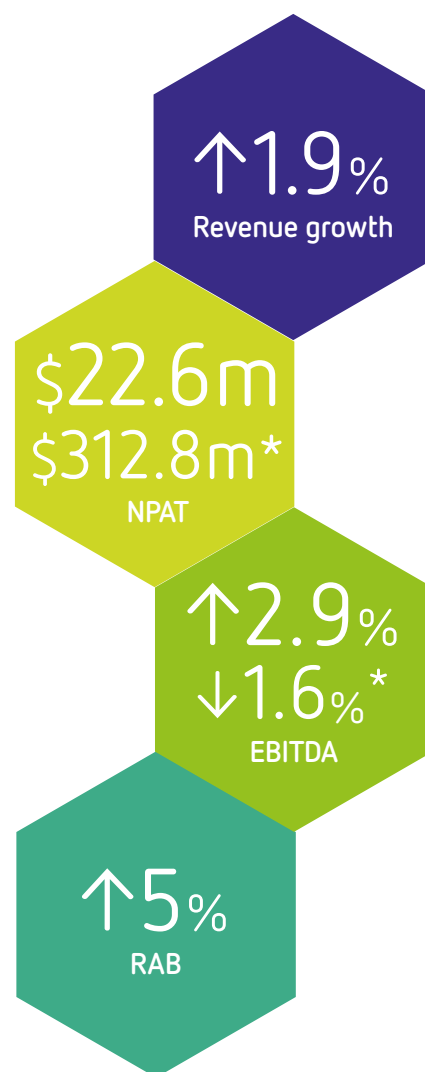
In February 2015, we issued \$825m equivalent of 12-year Euro bonds, which is one of the longest and lowest coupon Euro bonds issued by a non-financial Australian company.

These bond issues continued our funding diversification and increased the average tenor of our debt portfolio from 5.4 years to 6.3 years.

Importantly, we maintained our strong investment grade credit rating (Standard & Poor's "A-", Moody's Investors Service "A3", which enables us to access various capital markets at a competitive cost of debt.

For more detail on our economic performance, please refer to our *Statutory Annual Report*, available on our website:

www.ausnetservices.com.au/investors/companyreports



*Adjusted EBITDA and NPAT.

- Adjusted EBITDA excludes the recognition of a provision for AMI customer rebates of \$32.5m for the year ended 31 March 2015 and \$50.0m payable for the termination of the Management Services Agreement (MSA), \$22.2m of performance fees under the MSA and \$7.7m in restructuring costs associated with the Termination Deed for the year ended 31 March 2014.
- As well as the after-tax impact of the items listed for adjusted EBITDA above, adjusted NPAT also excludes recognition of \$183.3m in income tax expense for the settlement with the ATO in relation to the intra-Group financing audit for the year ended 31 March 2015; excludes \$84.1m recognition of net exposure relating to an intellectual property dispute with the ATO for the period ended 31 March 2015; and excludes a net charge of \$86.7m for the amount potentially payable in respect of the Section 163AA dispute for the year ended 31 March 2014.
- Adjusted EBITDA and adjusted NPAT are non-IFRS measures that have not been subject to audit or review.

Our people

Our organisational success is a direct result of our people, their talents, ideas and the contributions they make every day.

We have delivered a number of corporate initiatives to support and drive the capability, performance and engagement of our people, helping increase employee engagement from 50 per cent to 62 per cent since 2011.

Our Select Solutions division received an Aon Hewitt Best Employers Award for its employee engagement achievements, scoring an 80 per cent engagement rating in 2014.

The key drivers of AusNet Services' engagement success include effective leadership and our efforts to promote a safe and inclusive workplace environment. Some of our key initiatives in these areas are detailed below.

In 2012, AusNet Services introduced its General Employee Exempt Security Plan (GEESP), an opportunity for eligible employees to purchase securities in the company via a salary sacrifice arrangement. The plan has seen participation increase year on year, from a 37.1 per cent participation by eligible employees in 2012, rising to a 44 per cent participation in 2014.

This is a great reflection of our employees' desire to secure an interest in AusNet Services.

Values

In August 2014, we launched a new company name and brand that position us as an energy delivery service with a greater customer, external and future focus. All our people have been engaged as brand champions, and actively supported the launch and ongoing implementation.

Also during the year we refreshed our corporate values to align with our new name and brand. Our values express the beliefs and principles we agree to share at AusNet Services – they guide our behaviours when working together and when conducting business with people outside our organisation.

Employees from across the organisation have attended focus groups to provide their feedback and input into the new values wording:

- > **We work safely**
- > **We do what's right**
- > **We're one team**
- > **We deliver**

These four compelling statements set uncompromising standards of behaviour by which we will hold each other accountable.

The high level of employee involvement in the development phase has helped make our values truly a genuine reflection of what's important to us. Employee engagement continues as we now roll the values out through our teams, and initiate plans to bring the words of the values to life.

Maintaining a strong talent pool

Our executive-led Talent and Diversity Council has overseen a range of initiatives to attract, engage and create opportunities to strengthen our talent pipeline, including:

- > quarterly divisional leadership team meetings to discuss and drive talent and diversity initiatives within their areas, with a focus on performance and development, succession planning and the pipeline of talent;
- > new career conversations with emerging and high potential employees across the organisation, helping develop talent initiatives – more than 250 conversations as at 31 March 2015;
- > Skilling for the Future program (involving trainees, apprentices and graduates) appointed four engineering graduates to the Graduate Engineers program and 16 students into our Engineering Vocation program;
- > ongoing partnerships with organisations in regional areas, such as Baw Baw Local Learning and Employment Network (LLEN), to grow or talent pipeline for apprentice and traineeship roles; and
- > talent identification in the external market and recruitments into key technical, operational and leadership roles.

Growing our leaders

We believe that strengthening the capability and performance of our leaders will drive a culture of accountability, transparency, high performance and organisational excellence.

To achieve this objective, we developed and implemented a New Manager program, helping 50 new managers last year understand their role and accountabilities, and equipping them with the knowledge and skills to perform these roles.

We also established a Leadership Development program that will begin in 2015, focused on our four levels of leadership: executive, strategic, operational and frontline leaders.

The value of diversity

We have a key focus on fostering diversity and working together to promote a safe, flexible and inclusive work environment. This focus on diversity assists AusNet Services in forging strong connections with our customers, as well as innovating and making better decisions for our business.

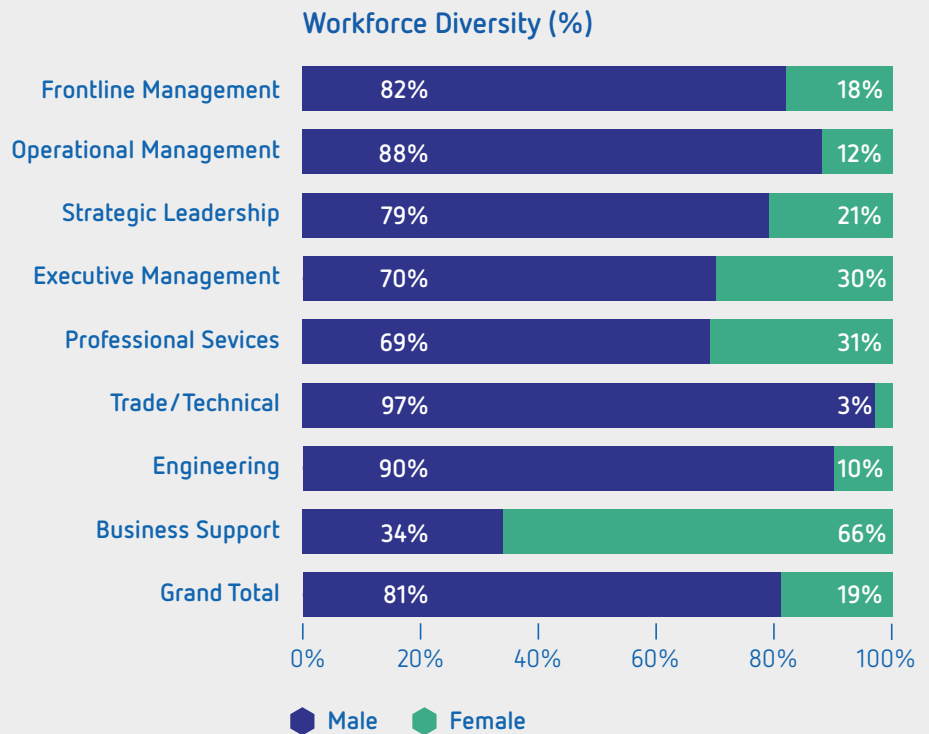
One of the key drivers of our increase in employee engagement was our ability to create a work environment that is very open and accepting of individual differences.

With an aim to increase female representation in all occupational sub-groups, we've embedded gender-diversity initiatives in our recruitment, talent development and learning programs to ensure we build a strong pipeline of female leaders for the future.

Initiatives to attract, develop and retain female talent include:

- > Women's Career Development program: focuses on cultivating career development skills and building a networking community that has helped more than 90 women since 2012 to share insights, support each other, reflect and shape their career planning.
- > Flexible working arrangements: including flexible hours of work, compressed working weeks, part-time work, purchased leave and study leave. A survey was conducted for the first time on the level of engagement experienced by employees on flexible working arrangements, with positive perceptions held by 81 per cent of employees.

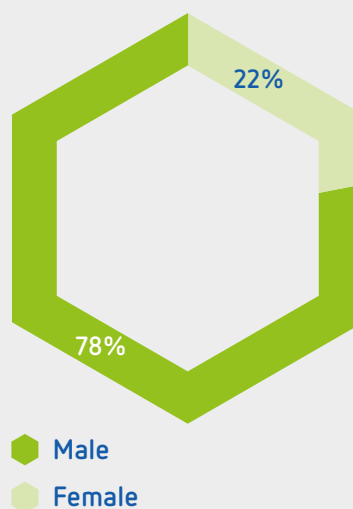
- > General Manager-led Female Career Sponsorship program: launched this year to proactively target career development opportunities for our female talent.
- > Career conversations for female talent pool candidates with their one up manager. This specific group also participated in almost half of AusNet Services' suite of formal mentoring and coaching programs.
- > A focus on diverse external attraction and recruitment initiatives, including gender-diverse candidate shortlists.
- > AusNet Services' Sponsorships, Donations and Partnership activities: supporting various initiatives to strengthen our female talent pathways into trade, technical and power engineering professions.



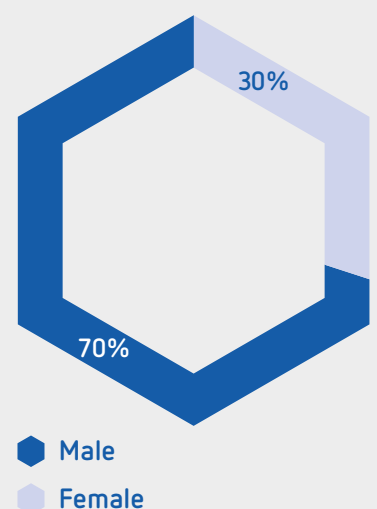
Key Points

- > During FY2015, the level of female participation was 19 per cent.
- > The proportion of women has increased or remained constant in all occupational groups except for professional services.
- > The majority of women are represented within business support roles (66 per cent) and professional services roles (31 per cent).
- > Women represent 30 per cent of our Executive Leadership Team and 22 per cent of AusNet Services' Board.

AusNet Services' Board



Executive Leadership Team



Our customers

AusNet Services' purpose is to provide our customers with superior energy and network solutions.

To deliver on our purpose, we aim to make our networks safer and more reliable while focusing on innovation and better customer service.

In the last financial year, we invested more than \$809m in capital expenditure aimed at delivering customer benefits.

Safety

Safety for our customers, employees and the communities in which we operate is the number one priority at AusNet Services.

Our electricity distribution network is predominantly (80 per cent) located in high bushfire-prone areas.

In the last five years, we have invested record levels – more than \$540m – to reduce bushfire risks across our network, with significant changes related to the Victorian Bushfires Royal Commission.

We have also implemented comprehensive vegetation and asset inspection, and management programs (refer to diagram showing 2014 activity on page 3).

We have made significant improvements in our safety performance during this period, including reducing crossarm-related fires by 85 per cent, high voltage fuse-related fires by 50 per cent and electric shock incidents by 30 per cent.

We're proud of these safety improvements and look to continue these programs.

Reliability

Planned outages are the largest interaction with our customers, with approximately 25,000 planned outages undertaken last year, and more than 10,000 of these impacting our customers' electricity supply.

Several reviews were undertaken over the last year to improve how we coordinate, execute and communicate planned outages for maintenance and projects on our electricity distribution network.

The reviews identified several improvements, including the need to increase communications with customers, combine planned works where possible and verify customer data, particularly for sensitive and life support customers.

By implementing these changes – among other efforts – total customer complaints decreased by 11.6 per cent between April and December 2014, compared to the same period in 2013.

We also achieved a 2 per cent improvement in our customer satisfaction rating to 72 per cent, while 72 per cent of customers gave us an "excellent" or "good" rating overall.

Extending our network

AusNet Services has started a range of projects under the Victorian Government's Energy for the Regions program, extending the gas network to more customers. Customers who will benefit from access to natural gas are located in Avoca, Torquay, Bendigo and Huntly.

Customer engagement

To ensure our network continues to meet customer needs and priorities, we need to engage with, and understand, our customers.

In the past 12 months, we've undertaken significant customer engagement as part of our Electricity Distribution Price Review (EDPR).

Through this process, we engaged with customers to collaborate on issues and involve customers in shaping our future programs and associated costs. We will be incorporating the experience and learnings from this process into an ongoing customer engagement program.

Electricity Distribution Price Review

As a regulated energy business, every five years we submit proposals to the Australian Energy Regulator (AER) containing our operational plans and the revenue required to carry out these plans.

For this price review, we've engaged with our customers in a variety of ways – hosting technical workshops, community forums, focus groups – to gauge their attitudes, priorities and preferences when developing our EDPR proposal.

Feedback from the forums has shown:

- > 76% of participants felt that these forums were effective in building relationships with customers; and
- > 89% found the forums effective in raising awareness of AusNet Services.

Our customers told us they are looking for price stability, maintained reliability levels, and supported continued investment in innovation – particularly, innovation that leads to long-term costs or benefits – and safety.

In April 2015, we submitted our proposal to the AER, balancing customer feedback with our regulatory obligations to provide a safe and reliable network in the long-term interests of customers.



ABOVE (from left to right): General Manager Service Delivery, John Azaris, Regional Business Manager, Tim Lloyd, and one of our customers at the recent Warragul Customer Engagement Forum.

For more information on our EDPR engagement activity, please visit:

www.ausnetservices.com.au/determiningrevenues

Innovation

Innovation is key to the safe and efficient delivery of energy in the long-term interest of our customers.

This year, we commenced an Australian-first trial using a 1 megawatt battery to supply electricity into the 22,000 volt network during peak demand periods, with the goal of delaying or offsetting network investment.

Also, the introduction of digital smart meters to the network has provided the opportunity to develop in-house technologies using the data to operate our network more efficiently and service our customers better.

This has included an application using smart meter network data to detect unsafe neutral connections from street powerlines into properties and predict future failures that could cause electric shocks to customers.

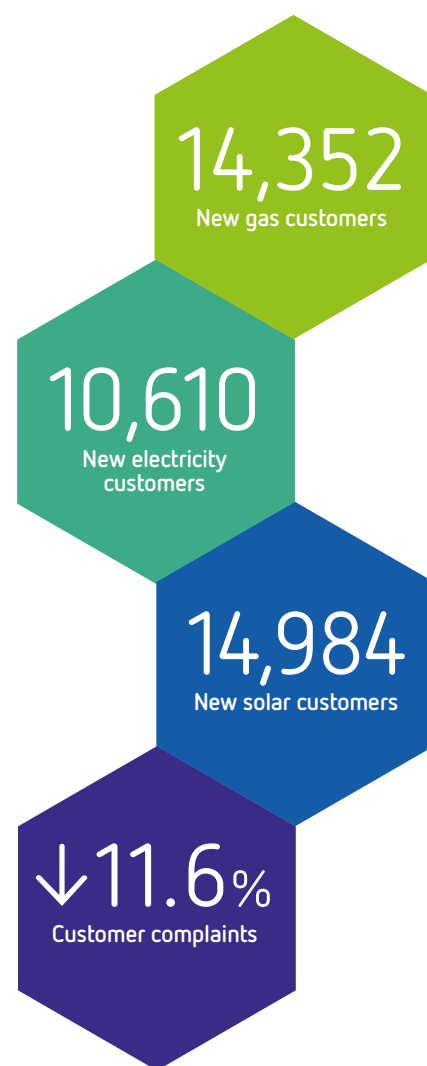
Award-winning technologies

Since 2013, our smart meter technology has identified and allowed the removal of nearly 1,000 safety hazards that could have resulted in electric shocks to customers.

During the year, we won two Victorian Engineering Excellence Awards for technologies developed in-house to improve the safe and reliable supply of electricity to customers.

We won a highly commended recognition in the "Product design and smart systems" category for the application that detects unsafe neutral connections and for our Distribution Feeder Automation (DFA) technology. This is an autonomous "real-time" fault location, isolation and re-routing scheme that restores supply within 60 seconds to customers of a nearby fault.

In addition to achieving innovations in safety and reliability, in 2015 we registered more than 3,000 customers to use our myHomeEnergy portal to help manage their energy usage, passing the 10,000-customer milestone.



Demand management

Over the past five years, AusNet Services has reduced peak demand by approximately 70 megawatts annually through efficient and cost-effective demand management solutions.

This year, we extended the program to include an Australian-first trial, using a 1 megawatt (1 MW) network battery, with the aim to supply electricity during peak demand periods, which could delay or offset network investment.

The system also includes a 1 MW diesel generator that extends the capability of the battery system to provide full coverage for the peak demand period, typically between 2pm and 6pm.

It also improves the quality of power delivery, providing active and reactive power support and other power quality functions, when connected to the network.

Should a section of the network become isolated, the system can provide power as part of a mini grid.

The portable battery system has successfully provided local support into the 22,000-volt network at peak demand periods, helping smooth the peaks as intended.

The trial, expected to continue until the end of the 2015/16 summer, complements existing demand management solutions. These include mobile generators, critical peak demand tariffs, embedded generators and large customer contracts to curtail demand on peak demand days.



ABOVE: AusNet Services' network battery trial in Thomastown, Victoria.

Our environment

AusNet Services is committed to responsible management of the environment according to our Health, Safety, Environment and Quality policy.

In line with this policy, we report on our greenhouse gas emissions and energy usage in accordance with the Australian Government's *National Greenhouse and Energy Reporting (NGER) Act 2007* obligations.

Total emissions

Our NGER reporting for 2013/14, including our three corporations – SPI PowerNet Pty Ltd, SPI Electricity and Gas Holdings Pty Ltd, SPI Management Services – showed a 2.7 per cent net increase in total emissions from the previous year.

Some of this gain, particularly Scope 2 (indirect) emissions, is attributable to our renewed approach to improve data capture and analysis and has resulted in more robust data being made available.

We have identified a range of improvements for data capture and reporting to be instituted over the next two years to provide additional assurance that the reported data accurately reflects the company's operations.

Aside from reporting, we continue to undertake activities that result in reductions in losses and reduce the associated emissions.

For example, the Scope 1 (direct) emissions decrease was influenced by a deliberate reduction in the quantity of SF₆ gas, a highly effective insulator that is also a potent greenhouse gas.

Carbon Pricing Mechanism

AusNet Services was fully compliant with the requirements under the Carbon Pricing Mechanism as applied to the Scope 1 emissions from the Gas Facility. The total Scope 1 emissions amounted to 137,631 tCO₂-e and resulted in a payment of \$3.32m.

The Carbon Pricing Mechanism has since been repealed.

Fugitive gas emissions

Our gas distribution and transmission business is responsible for fugitive greenhouse gas emissions, primarily through leakage from the system. The table below shows the calculated emissions as submitted to the Clean Energy Regulator under the NGER legislation.

The 2013/14 emissions showed a small reduction in Scope 1 emissions, with one of the major factors influencing this reduction being the continuing program of replacement of old cast iron pipework within the distribution system.

The pipe replacement project is expected to be completed in 2025 and will assist in limiting AusNet Services from potential exposure to a financial liability through the safeguarding legislation.

For further information, please view our NGERS report 2013–14 at The Clean Energy Regulator website:

www.cleanenergyregulator.gov.au

Estimated fugitive gas emissions

Gas system	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Transmission	712	689	675	687	617	597
Distribution	197,876	140,940	138,771	138,654	138,440	137,034
Total (tCO₂-e)	198,588	141,629	139,446	139,341	139,057	137,631

Two-year CO₂-e emission

Year	Total emissions	Scope 1 emissions CO ₂ -e	Scope 2 emissions CO ₂ -e
2013/2014	2,325,777	184,379	2,141,398
2012/2013	2,264,240	196,121	2,068,119
% change	2.72%	-5.99%	3.54%

Our community

In 2015, AusNet Services continued our commitment to communities through sponsorships, donations, Community Development Fund programs and stakeholder engagement, with a focus on creating community benefits through education, volunteering and promoting employment opportunities.

Sponsorships

In 2015, we supported a range of community programs across our electricity and gas distribution regions that strengthened relationships with local community groups, councils and education providers.

Highlights include:

Education

AusNet Services offered two scholarships – the AusNet Services Women in Engineering Scholarship and the AusNet Services Scholarship, to third-year engineering students through the RMIT bursary program. We continued to support the Victorian Energy Education Training (VEET) program in both the eastern and central regions, creating a channel for new apprentices in the future.

In our central electricity region, we partnered with On Track Café to offer hospitality scholarships to address local employment skills and qualifications of early school leavers.

We also continued our partnership with the Beacon Foundation, a secondary school-level initiative that increases knowledge about employment opportunities.

Community development

This year, we partnered with locals councils in the Mansfield, Latrobe and Baw Baw shires to offer three Community Development Funds totalling \$60,000 to help community groups deliver projects for the benefit of local residents.

Business

For the eighth year, AusNet Services retained naming rights sponsorship for the AusNet Services Baw Baw Business Awards. The awards recognise business excellence in the shire. We also partnered with Bass Coast Shire as category sponsors of the Bass Coast Business Awards.

Sport

AusNet Services is proud to be a major sponsor of the Brunswick Zebras Football Club. As well as displaying the AusNet Services logo on the senior's team strip, the club will be holding a series of soccer clinics for refugee children in the local area.

Donations

AusNet Services started an ongoing association with Upper Kiewa Valley Community Association by offering a donation to develop a plan for the refurbishment of a public amenity along the West Kiewa River, Mount Beauty.

For the first time in our gas region, we made a donation to Encompass Community Services, which provides support to people with physical, intellectual, sensory and psychological disabilities, young people who are disengaged, long-term unemployed and those facing financial, social or learning barriers in the Geelong region.

Employee volunteering programs

In 2015, AusNet Services continued our Community Cornerstone grants program, in which employees are invited to apply for \$500 individual grants for their chosen non-profit organisation if they had volunteered at least 20 hours for their chosen organisation within the past financial year.

Two grant pools of \$15,000 were offered in May 2014 and December 2014 to reward employees and their volunteer organisations. Some examples of successful grants have been for a wide range of sporting clubs, emergency services, surf-lifesaving clubs, not-for-profit radio stations and aid for the underprivileged.

Stakeholder engagement

AusNet Services is dedicated to collaborating with all our stakeholders.

We engage with stakeholders in our communities to ensure they are informed about key projects, including upgrades at the Brunswick and Richmond terminal stations.

In addition, our regional customer and community representatives attend regular meetings with local emergency services groups, including councils, about local network programs, such as bushfire mitigation and vegetation management works.

BELOW: Presentation to Mansfield Council and grant recipients.



Our governance and risk management

Governance

AusNet Services is committed to achieving a high standard of corporate governance. A key role of the Board is to represent and serve the interests of securityholders by overseeing and appraising the strategies, policies and performance of the company. To effectively do this, the following standing committees are in place:

- > Audit and Risk Management Committee (ARMC) – oversees the adequacy and effectiveness of AusNet Services' audit program, risk management processes and internal control systems, including the monitoring of material business risks (financial and non-financial) and corporate compliance;
- > Nomination Committee – reviews and makes recommendations to the Board in relation to the appointment of new Directors, review of Board and Board Committee membership and performance, Board and CEO succession planning and the appointment of senior managers;
- > Remuneration Committee – reviews and advises the Board on matters relating to the remuneration of Directors, and the remuneration and performance of senior executives;
- > Compliance Committee – supports and advises the Board on compliance matters relevant to the AusNet Services (Finance) Trust and its Responsible Entity; and
- > Issuing Committee – advises the Board on the parameters, amount, price, and terms and conditions of AusNet Services' re-financing activities.

Additionally, special-purpose Board committees are established to deal with specific projects or where a potential conflict of interest exists.

During the 2014/15 reporting period, AusNet Services followed all but five of the recommendations contained in the ASX Corporate Governance Council's Principles and Recommendations, 3rd Edition.

An explanation for each of these departures, as well as further material relating to AusNet Services' corporate governance practices, is included in the full Corporate Governance Statement contained in AusNet Services' *Statutory Annual Report*, which is available online at www.ausnetservices.com.au.

Risk management

Effective risk management is vital to AusNet Services' future growth.

Our approach to risk management involves a formalised process of recognising, understanding and responding to risk. We actively manage our risks, including emerging conditions, to enable appropriate proactive actions to be taken.

All employees are responsible for the management of risk in accordance with our company's Risk Management Framework. Performance measures are embedded in accountability plans and responsibility to manage risk effectively is documented in the enterprise "leadership accountability model". There are four key elements that underpin the framework. Each helps us to embed a robust risk culture within our business.

1. **Intent.** Our framework starts with our Risk Management Policy – a mandate from the Managing Director that supports the business strategy and sets expectations for managing risk within AusNet Services. This Policy is consistent with ISO 31000:2009 Risk Management Standard and is communicated throughout the business via risk management standards and guidelines that use a common methodology.
2. **Capability.** It is critical that all employees have strong risk capability to apply to their daily activities and decision making. The Risk Management team provides training and systems to develop this capability.
3. **Accountability.** All employees are responsible for managing risk. We apply a "three lines of defence" model to ensure depth of accountability in managing risk (see table below).
4. **Continual Improvement.** An important element is the assessment of whether the Risk Management Framework as a whole is effective and is being implemented correctly. Performance measures, maturity evaluations and assurance by both management and Internal Audit are used to continually improve the framework.

The Board and the Audit and Risk Management Committee oversee the management of key business risks and the effectiveness of the risk management system and internal control environment.

Primary Risk Control Measure	Secondary Risk Control Measure	Assurance Process
Management	Company risk management, divisional risk leaders	Internal audit
<ul style="list-style-type: none"> > implements the Risk Management Framework in line with risk appetite > identifies, controls and monitors risks > maintains a sound risk and control environment and culture 	<ul style="list-style-type: none"> > develops, maintains and implements risk policies, frameworks and tools > provides support and risk management advice > challenges risk thinking > oversees key company risks and reports on risk performance 	<ul style="list-style-type: none"> > delivers independent assurance over the management of key risks > provides assurance on the overall effectiveness of the risk and control framework

The Risk Management team and the Group Risk Committee (GRC) review the risk profile regularly. The GRC is chaired by the Managing Director and made up of the Executive Leadership Team. Its focus is predominantly on strategic and key operational risks that underpin the achievement of corporate objectives. As part of the strategic planning process, a thorough strategic risk review is conducted that considers internal and external factors, emerging conditions and feedback from stakeholders.

Operational risks are reviewed by responsible business units on a regular cycle that includes establishing appropriate action plans.

- > A suite of training guides were developed to enhance key risk management skills for leaders. These underpin the AusNet Services Risk Maturity Model.
- > Tailored risk management approaches, consistent with the Risk Management Framework, were developed for major business projects to assist managing risks and issues at a tactical level.
- > Crisis and emergency management capability was enhanced through maturing response protocols at a regional level and updating both the business continuity plan for key corporate sites and the company-wide pandemic plan.

Achievements for FY2015

- > A Risk Appetite Statement has been developed and endorsed by the Board. It is being actively trialled, with a view to full implementation in 2016. This will further strengthen risk awareness and consideration of risk in decision making.

"By understanding and managing risk we provide greater certainty for our securityholders, employees, customers, suppliers and the community."



Financial performance

Five-year financial summary

	2015	2014	2013	2012	2011
Revenue (\$M)	1,833.9	1,799.4	1,639.5	1,535.4	1,468.0
EBITDA (\$M)	1,047.2	1,017.4	974.0	907.1	863.4
EBIT (\$M)	668.0	647.7	651.2	613.3	605.2
Profit for the year (\$M)	22.6*	178.3	273.5	255.0	252.9
Total assets (\$M)	12,063.3	10,612.3	10,082.2	8,730.9	8,461.1
Total borrowings (\$M)	7,216.1	6,069.2	5,277.2	4,538.5	4,374.2
Total equity (\$M)	3,248.8	3,444.6	3,437.1	2,927.9	2,864.9
Net debt to asset base (%)	67.5%	68.6%	68.1%	73.1%	71.2%
Net gearing (%)	66%	62%	58%	61%	59%
Interest cover (times)	2.8	2.5	2.5	2.4	2.5
Dividend (cents)	8.36	8.36	8.20	8.00	8.00
Earnings per stapled security (cents)	0.66	5.28	8.37	8.95	9.19
Capital expenditure (\$M)	809.4	950.0	881.4	710.3	650.4
Operating cash flows (\$M)	767.6	730.2	568.6	430.5	472.8

*Adjusted NPAT is \$312.8m – please refer to the footnote at the bottom of page 9.

Combined income statement

For the year ended 31 March 2015

	2015 \$M	2014 \$M
Revenue	1,833.9	1,799.4
Expenses, excluding finance costs and termination expenses	(1,165.9)	(1,094.0)
Termination expenses	–	(57.7)
Profit from operating activities	668.0	647.7
Finance income	26.7	24.7
Finance costs	(340.3)	(367.0)
Net finance costs	(313.6)	(342.3)
Profit before income tax	354.4	305.4
Income tax expense	(331.8)	(127.1)
Profit for the year	22.6	178.3

The above combined income statement should be read in conjunction with the *Statutory Annual Report 2015*.

Combined statement of financial position

For the year ended 31 March 2015

	2015 \$M	2014 \$M
ASSETS		
Current assets		
Cash and cash equivalents	883.1	409.8
Receivables	488.9	281.7
Inventories	37.5	42.3
Derivative financial instruments	129.3	0.1
Other assets	24.3	25.0
Total current assets	1,563.1	758.9
Non-current assets		
Receivables	207.2	215.3
Inventories	19.4	17.6
Property, plant and equipment	9,341.9	8,944.3
Intangible assets	392.9	392.8
Derivative financial instruments	535.2	264.2
Tax receivable	–	17.1
Other assets	3.6	2.1
Total non-current assets	10,500.2	9,853.4
Total assets	12,063.3	10,612.3
LIABILITIES		
Current liabilities		
Payables and other liabilities	497.7	272.3
Current tax payable	138.6	69.7
Borrowings	776.7	673.6
Provisions	122.3	99.3
Derivative financial instruments	46.6	70.7
Total current liabilities	1,581.9	1,185.6
Non-current liabilities		
Payables and other liabilities	28.1	11.4
Non-current tax payable	5.4	–
Borrowings	6,439.4	5,395.6
Provisions	78.5	35.0
Derivative financial instruments	209.1	235.4
Deferred tax liabilities	472.1	304.7
Total non-current liabilities	7,232.6	5,982.1
Total liabilities	8,814.5	7,167.7
Net assets	3,248.8	3,444.6
EQUITY		
Equityholders of AusNet Services Distribution		
Contributed equity	0.5	0.5
Reserves	(70.7)	(57.0)
Retained profits	567.9	713.1
	497.7	656.6
Equityholders of AusNet Services Transmission and AusNet Services Finance Trust	2,751.1	2,788.0
Total equity	3,248.8	3,444.6

The above combined statement of financial position should be read in conjunction with the *Statutory Annual Report 2015*.

Combined statement of cash flows

	2015 \$M	2014 \$M
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	2,068.6	2,000.3
Payments to suppliers and employees (inclusive of goods and services tax)	(904.8)	(897.3)
Payment of MSA termination fee (inclusive of goods and services tax) (i)	(39.3)	–
Income tax paid	(54.5)	(35.4)
Finance income received	23.8	23.1
Finance costs paid	(326.2)	(360.5)
Net cash inflow from operating activities	767.6	730.2
Cash flows from investing activities		
Payments for property, plant and equipment	(800.5)	(925.2)
Proceeds from sale of property, plant and equipment	5.7	0.8
Payments for acquisition of a subsidiary (net of cash acquired)	(0.4)	(24.2)
Receipts from desalination licence receivable	8.8	8.8
Net cash outflow from investing activities	(786.4)	(939.8)
Cash flows from financing activities		
Distributions paid (ii)	(179.2)	(257.0)
Proceeds from borrowings	1,830.3	2,162.6
Repayment of borrowings	(1,159.0)	(1,827.2)
Net cash inflow from financing activities	492.1	78.4
Net increase/(decrease) in cash held	473.3	(131.2)
Cash and cash equivalents at the beginning of the year	409.8	541.0
Cash and cash equivalents at the end of the year	883.1	409.8

(i) Settlement of fees for the termination of the Management Services Agreements (MSAs) with SPI Management Services Pty Ltd (SPIMS) and Enterprise Business Services (Australia) Pty Ltd (EBS) (a subsidiary of SPIMS) which were recognised in the year ended 31 March 2014. The net payment represents the termination fee of \$50m plus recoverable GST, offset by SPIMS employee provisions transferred to AusNet Services of \$15.7m.

(ii) Amounts shown represent distributions paid of \$284.7m (2014: \$279.1m) offset by proceeds from the Distribution Reinvestment Plan of \$105.6m (2014: \$22.2m), less transaction costs.

The above combined statement of cash flows should be read in conjunction with the *Statutory Annual Report 2015*.

Company information

Financial calendar

2015 Annual General Meeting
23 July 2015

2015/16 Financial Half Year end
30 September 2015

2015/16 Half Year Results announced
17 November 2015*

2015/16 Financial Year end
31 March 2016

*Subject to confirmation.

Annual General Meeting

The Annual General Meeting of AusNet Services will be held on Thursday, 23 July 2015 at 10.00am. The location of the Annual General Meeting is:

The Arts Centre Melbourne

ANZ Pavilion
100 St Kilda Road
Melbourne, Victoria, Australia

Enquiries and information

Enquiries about stapled securities

AusNet Services' register of stapled securities is maintained by Computershare Investor Services Pty Limited ("Computershare"). For enquiries about AusNet Services stapled securities, a transfer of securities or distributions, contact:

Computershare Investor Services Pty Limited

Yarra Falls, 452 Johnston Street
Abbotsford, Victoria 3067
GPO Box 2957
Melbourne, Victoria 3001 Australia
Telephone: 1300 850 505
(within Australia)
+61 3 9415 4000
(outside Australia)
Facsimile: +61 3 9473 2500

Enquiries about AusNet Services

Contact AusNet Services:
Investor Relations

Telephone: +61 3 9695 6000
Facsimile: +61 3 9695 6666
Email:
investor.enquiries@ausnetservices.com.au

Or write to:

Investor Relations
AusNet Services
Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006 Australia

Stock Exchange Listing

The stapled securities are listed under the number "AusNet Services" and code "AST" on the Australian Stock Exchange, and on the Singapore Exchange Limited under the code "AUSNET SERVICES".

The securities participate in the Clearing House Electronic Subregister System ("CHESS").

Tax File Number ("TFN") information

While it is not compulsory for securityholders to provide a TFN, AusNet Services is obliged to deduct tax from distributions to holders resident in Australia who have not supplied such information. If you have not already supplied your TFN, you may wish to do so by writing to Computershare.

Change of address or name

A securityholder should notify Computershare immediately, in writing, if there is any change in his or her registered address or name.

AusNet Services

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